AR69

COMMITTED TO PROFITABLE GROWTH

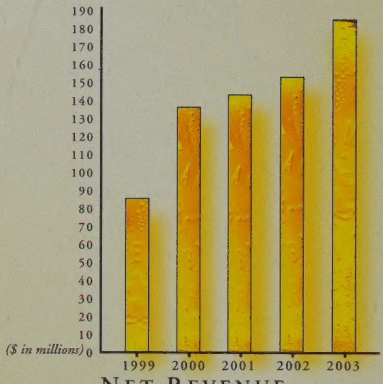
ANNUAL REPORT 2003

FINANCIAL HIGHLIGHTS

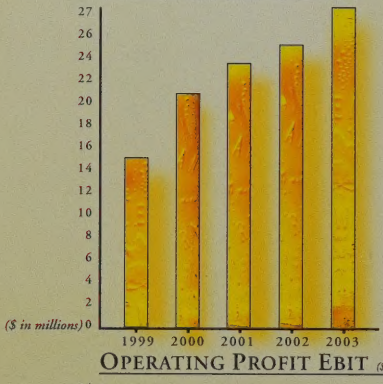
(in thousands of dollars except volumes and per share amounts)

	2003	2002	% Change
Total Volume* (HL)	1,273,000	1,134,000	12.3
Net revenue	185,036	157,053	17.8
Operating profit (EBIT)	27,100	24,528	10.5
Net Income	12,253	12,321	-
Earnings per share (fully diluted)	.76	.77	-
Shareholders' equity	103,800	90,197	15.1

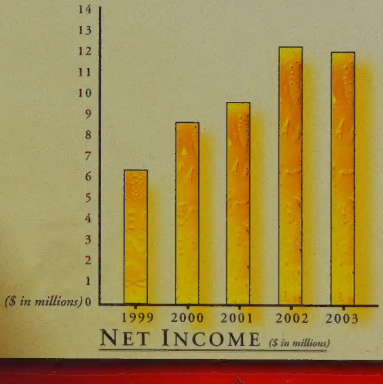
*Includes total Sleeman Breweries volume and contract brewing
Note: Sleeman's financial performance is often stated in terms of sales volume, expressed in hectolitres of beer. (HL)
A hectolitre is approximately 12.2 cases of 24 bottles



NET REVENUE *($ in millions)*



OPERATING PROFIT EBIT *($ in millions)*



NET INCOME *($ in millions)*

SLEEMAN BREWERIES LTD.
EST. 1834

COMPETITIVE STRENGTHS

- Third largest brewer in Canada and the country's number one producer of premium beer with nationwide production facilities, sales and marketing staff, and distribution infrastructure;
- Portfolio of brands focused on the two growing categories of the Canadian beer market - premium and value;
- Quality products with recognized brand names and a mix of national, regional and imported brands; and
- Solid management team with an eye on profitable growth.

GROWTH STRATEGIES

- Continue to focus on cost management and improved efficiencies;
- Create distinctive sales and marketing programs which are focused on building our premium brand portfolio;
- Successfully integrate the new Sapporo Silver Can production;
- Continue to advance our market development initiatives in the U.S.;
- Expand corporate production capacity in a cost effective manner;
- Innovate; and
- Evaluate acquisition and expansion opportunities - from both operational and financial standpoints.

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CORPORATE OVERVIEW

Sleeman Breweries Ltd. is the leading brewer and distributor of premium beer in Canada and the third largest brewing company nationwide. The Company has supplemented its core Sleeman brands, which are available in every province, with a family of exceptional regional brands. These include Okanagan Spring and Shaftebury in British Columbia and Alberta, Upper Canada in Ontario, Seigneuriale in Quebec and MacLays in Atlantic Canada. Sleeman entered the rapidly growing value price category in 1999 by acquiring the Stroh portfolio of brands in Canada.

The company markets and/or distributes world-class imported products such as Guinness, Grolsch, Samuel Adams, Scottish & Newcastle (including Strongbow Cider), Sapporo and Pilsner Urquell, and provides contract production for Japan's Sapporo Breweries. Sleeman is also available in selected U.S. and British markets. Please visit our website at www.ale-sleeman.com.

SLEEMAN BREWERIES LTD.
EST. 1834

OPERATIONAL HIGHLIGHTS

- Launched Okanagan Spring 1516 Bavarian Lager into the Alberta marketplace, following the successful 2002 launch of the product in the British Columbia marketplace

- Introduced Sleeman Premium Light in cans in British Columbia, Alberta, and Ontario

- 330ml cans of Sleeman Cream Ale, Premium Light, and Honey Brown introduced to the province of Quebec

- Signed distribution agreements with Diageo Canada Inc. to distribute draught and packaged brands including Guinness in the provinces of British Columbia and Quebec

- Relocated to an expanded warehouse/distribution centre in Vancouver

- Low-carb Sleeman Clear successfully launched to premium beer drinkers in Ontario, Quebec and Western Canada

- Expanded contract with Sapporo Breweries Ltd. to include worldwide production of their distinctive 650ml "Silver Can"

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MESSAGE TO SHAREHOLDERS

2003 was a very successful year for Sleeman Breweries despite the unusual challenges we faced as a company. These included the collapse of a tank in July, the Ontario power blackout in August, a significant income tax increase in Ontario and SARS. In fact, in a year when the Canadian beer industry's sales were largely flat [-.2%], our Company's owned brand volumes increased 3%, core volumes increased 14%, net revenues increased 18% and earnings before interest, taxes, depreciation and amortization, measured on a normalized basis, increased 21%.

The Company has consistently grown year after year by following a few simple rules. These rules for success have not changed. We sell high quality and innovative products using distinctive sales and marketing programs. By doing this consistently, Sleeman Breweries has solidified its position as the third largest Canadian brewer and the nation's number one seller of premium beer.

Focus On Meeting Commitments

The management team, our Board, our employees and I believe that we need to meet our commitments to all stakeholders of the Company. You, our shareholders, are key stakeholders in our Company and we worked throughout the year to meet our commitments to you that we made early in 2003 to keep selling, general and administration expenses less than $50 per hectolitre for the year and to deliver normalized diluted earnings per share growth in excess of 15%.

Delivering Profitable Growth

Going forward, we are committed to achieving profitable growth. To do this, we will focus on certain key strategies:

- We will deliver innovative products to the market first, as we did with our Sleeman Clear launch in 2003;
- We will invest in creative marketing of our brands that generate higher than industry average volume growth;
- We will improve our margins by being disciplined price followers who take price increases where they are appropriate and by being more efficient in our production, distribution, sales and administration processes; and
- We will continue to focus our sales, marketing and innovation efforts on our higher margin premium business.

Positioning For Growth

In order to meet these growth plans, we will need to increase the production capacity of our breweries across Canada while continuing to assess acquisition opportunities as they arise. During the year, we refinanced our long term debt on favourable terms to provide the Company with the funds to make the capital purchases required to meet our growth expectations. In fact, the Company now has a borrowing facility of $160 million. We used $86 million of this facility as at the end of 2003 and thus we have significant financial capacity to fund our growth plans.

Corporate Governance

Corporate values, ethics and governance have generated a lot of attention over the past year. As such, I believe it is important for our shareholders to understand our Company's position on these matters. Sleeman Breweries Ltd. expects and demands that its employees, suppliers and directors conduct themselves in an ethical manner as laid out in our Code of Conduct. Any breaches of our Code of Conduct are taken very seriously and dealt with

MESSAGE TO SHAREHOLDERS

expeditiously. Moreover, management and our Board of Directors are cognizant of their respective roles and responsibilities and work cooperatively to ensure that all responsibilities and duties are fulfilled.

Renewed Management Team

I am especially proud of our achievements in 2003 given that we started the year with an almost entirely new senior management team.

- Rick Knudson, previously Managing Director for Western Canada, was appointed President and Chief Operating Officer;
- Dan Fox, previously Vice President, Domestic Brands and Business Development, was appointed Managing Director, Ontario and Atlantic Canada; and
- Steve Pelkey, previously Okanagan Spring's Director of Marketing, was appointed Managing Director, Western Canada.

These promotions were awarded to experienced and proven Sleeman employees with a wealth of industry experience. The management changes are consistent with our corporate values which include promoting personal development and empowering our employees.

Finally, during the year we made one final change to the senior management team to address the unique challenges in the Quebec marketplace.

- John Bailey, previously Vice President of Marketing for a national brewer, was appointed Managing Director, Quebec.

I believe that this group will provide our Company with the stability and continuity we need to continue to grow.

Going Forward

Our Company's stated goals of increasing market share and sales volumes profitably will continue to be a priority in 2004. Below are some specific and measurable financial goals that we have set for ourselves for the next few years:

- We aim to grow EBITDA as a percentage of average capital employed to 22% by fiscal 2006. In fiscal 2003, it was 17.6%;
- During the same time frame, we want to grow EBITDA to approximately $42 million from $33 million in 2003; and
- We are targeting normalized earnings per share growth of 10 to 15% a year, again through to 2006.

We remain well positioned to meet these targets.

Our Thanks

On behalf of our Board of Directors, I would like to acknowledge and thank our employees for their commitment and dedication that helped us make 2003 a success in the face of some significant challenges. I would also like to thank our customers for their continued support of our products and brands. Finally, we thank you, our shareholders, for your support and confidence in the future of Sleeman Breweries Ltd.

As always, I remain,
Yours sincerely,

John Sleeman
Chairman & CEO

MESSAGE TO SHAREHOLDERS

Sleeman achieved another successful year in 2003 both financially and operationally. Operationally, all of our production facilities produced record amounts of product notwithstanding the unusual challenges we faced. Moreover, we worked very effectively as a team to minimize the number of hectolitres we short shipped our customers as a result of the combined effects of the tank collapse in Guelph in July and the blackout in Ontario in August. These events could have very significantly affected our results in a negative manner for the year, but we pulled together to overcome them and still achieved record sales and production volumes. As a result, I am very proud of the new senior management team that we have and I look forward to working with them over the coming years to continue to grow our business and profits.

Report On 2003 Key Objectives

At the beginning of 2003, we committed to certain specific key operating objectives. Below is a progress update on each of those key objectives:

Focus on cost management. Close monitoring of expenses combined with improved efficiencies in our processes across the Company resulted in total selling, general and administrative expenses of $48 per hectolitre, which was well below our stated target of $50 per hectolitre. In addition, we undertook and are continuing with various operational reviews in areas such as production, administration and distribution with the goal of becoming more efficient, effective and economical in these areas. The goal is to drive out "non-value added" costs from our operations so that we can increase our brand support initiatives and our profitability.

Support our brands with aggressive coast-to-coast marketing programs. During the year, we successfully focused our resources on marketing our higher margin, premium core brands in the major markets coast-to-coast. The media, promotional and public relations campaigns for the launch of Okanagan Spring 1516 Bavarian Lager in Alberta and the launch of Sleeman Clear in both Ontario and Quebec were very successful. We are developing more creative ideas for future programs, which we expect will create added excitement around our brands.

Seek to improve sales, broaden distribution and increase shelf presence. In Vancouver, we relocated from our previous warehouse to an expanded warehouse/distribution centre to accommodate growth opportunities. In Ontario, we restructured our sales force to allow for more focused and fact-based selling to key retail and licensee locations. We are also revising our Quebec sales force structure. Again, this process is designed to ensure that we have optimal coverage of the numerous grocery, convenience, and on-premise customers in that province.

Advance our refocused market development initiatives in the U.S. Given the size of the U.S. market, we continued with our cautious and prudent expansion approach by focusing on two specific development markets – Minneapolis and Boston.

TO SHAREHOLDERS

Minneapolis saw strong market trends with our sales increasing by over 100% in 2003. Boston market trends were not as strong and we achieved marginal increases in that market. We continue to make progress in the challenging area of distributor support in this development market, and we are hopeful for stronger trends moving forward. We remain committed to advancing our market development initiatives in the U.S., where there is an opportunity to gain market share over the long term in a prudent and measured way. We will not sacrifice our competitiveness in Canada by over committing to our developing U.S. business.

Investigate new or expanded strategic partnership opportunities with international brand owners. We expanded our agreement with Sapporo Breweries Ltd. of Tokyo, Japan to include worldwide production of its distinctive 650ml "Silver Can". This contract addition will result in Sleeman producing 75,000 hectolitres more volume for Sapporo annually at our Guelph brewery, beginning in the second quarter of 2004.

A new distribution agreement was also signed with Diageo Canada Inc. Sleeman is now distributing draught and packaged brands, including Guinness, in the provinces of British Columbia, Quebec and the Maritimes.

In addition to the agreements mentioned above, we also continued to develop the Canadian presence of our other partner brands including Grolsch, Maclays, Pilsner Urquell, Samuel Adams and Scottish & Newcastle.

Evaluate acquisition and expansion opportunities – from both operational and financial standpoints. The senior management team has spent a considerable amount of time evaluating our capacity requirements going forward and we feel comfortable that we can meet our production requirements over the next 12 to 18 months by expanding the Guelph, Vernon, and Halifax breweries in cost effective ways. We continue to look at acquisition opportunities. A viable opportunity must present both strategic and operational benefits.

Marketing And Advertising

The industry trend of increased marketing and advertising spending continued in 2003, and we anticipate this trend will continue in 2004 and beyond. We will continue to develop creative ideas that generate excitement around our brands. We are committed to allocating an appropriate budget to these valuable initiatives. We do not compete with our large competitors based on the total amounts spent on marketing and advertising as we will never outspend them. Instead, we aim to spend judiciously using targeted and unique campaigns.

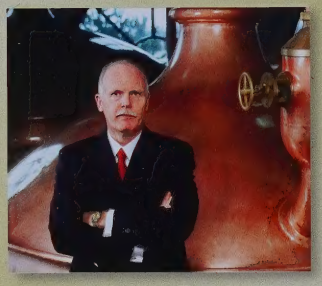
Market Trends

Sleeman's portfolio of brands consists of both premium and value products. The premium and value categories continue to be the fastest growing categories of the Canadian beer market.

During 2003 we launched two premium products - Okanagan Spring 1516 Bavarian Lager in Alberta, previously available only in British Columbia; and our low-carb Sleeman Clear in Ontario and Quebec. Both were embraced by Canada's premium beer drinkers beyond our expectations.

MESSAGE TO SHAREHOLDERS

We will continue to demonstrate our innovativeness through new and exciting product introductions to the Canadian beer market. The success of these initiatives will continue to enhance our financial performance and improve shareholder value.



In terms of our value brands, they continue to perform well in all markets except Alberta where the provincial government's beer tax regime favours lower priced, small brewers. Growth was exceptionally strong in the largest beer market in Canada-Ontario, where we have a very strong market leader in the Old Milwaukee brand. This category of products is important to Sleeman in that it allows us to gain critical production, sales, distribution and purchasing mass. We compete in this category on providing good quality products for a fair price and we limit our sales and marketing efforts on these brands so we can focus on our much more profitable premium products.

Momentum

Adherence to our growth strategy, while looking at improving how we do things on a day-to-day basis proved to be a success in 2003. We are not satisfied with where we are. We can and will continue to improve. To ensure continued growth in 2004, we remain focused on our number one objective - to generate strong financial returns by producing and selling beer profitably. We have a strong and committed management team in place that continues to provide the innovative ideas we need to build on our past successes. For 2004, we have set out the following operational objectives:

- Continue to focus on cost management and improved efficiencies;
- Create distinctive sales and marketing programs which are focused on building our premium brand portfolio;
- Successfully integrate the new Sapporo Silver Can production;
- Continue to advance our market development initiatives in the U.S.;
- Expand corporate production capacity in a cost effective manner;
- Innovate; and
- Evaluate acquisition and expansion opportunities – from both operational and financial standpoints.

2003 was a very interesting and rewarding first year for me as President of Sleeman Breweries Ltd. I look forward to reporting back to you in one year on our results for 2004, including our progress in meeting the above objectives.

Yours sincerely,

R Knudson

Rick Knudson
President and COO

SLEEMAN
2.5G CARBS
CLEAR

GOES STRAIGHT TO YOUR TASTEBUDS.

REGIONAL OVERVIEW

Western Canada Year In Review

2003 was a year of continued success for Western Canada. Again, we achieved record market share in each western province and earnings growth in a flat market. Premium brands continued to grow in all four western provinces, while value brands grew in each province except Alberta. The continuing effect of the Alberta tax regime introduced in 2002 has resulted in our shift in focus to premium products in that marketplace. Our early 2003 launch of Okanagan Spring 1516 Bavarian Lager into Alberta was successful in achieving a high level of acceptance by premium beer drinkers in that province.

We successfully launched Sleeman Clear in all four western markets before the end of 2003. In 2004, we expect to maintain our lead in this growing industry category. Can consumption continues to be dominant in both British Columbia and Alberta. Saskatchewan and Manitoba are experiencing a similar trend for cans with bottle consumption declining in all western provinces. We are conscious of consumer trends and are responding with new and innovative products created to appeal to our premium consumers.

In 2003, the provincial government in British Columbia announced the privatization of liquor distribution in that province. Progress on this initiative has stalled recently, but we are well-positioned to take advantage of future privatization with our ability to self-distribute our products. In 2003 we relocated to an expanded warehouse and distribution centre in Vancouver in order to meet our anticipated growth in sales. We also further leveraged our distribution system by signing an agreement with Diageo Canada Inc. to distribute draught and packaged brands, including Guinness, in the province of British Columbia.

Steve Pelkey

"Our success in Western Canada is a credit to the commitment and passion of our people. Our team is focused on making and selling beer profitably even if that means we forego sales in deep discount and largely unprofitable markets. Selling beer profitably comes down to offering customers a unique and high quality product they believe provides them with good value for their money."
Steve Pelkey, Managing Director, Western Canada

Year In Preview

To facilitate continuing growth, we will capitalize on opportunities available to us for increasing sales while continuing to realize further efficiencies in our production and distribution processes. Specifically, we will focus on a few key areas:

Capacity. We believe we have enough capacity in Western Canada to cover our expected sales over the next 12 to 18 months. Further expansion of the Vernon facility will provide us with additional capacity to help us over the intermediate term. For the longer term, we will continue to look at acquisitions or alternative opportunities that present both strategic and operational benefits, including additional capacity.

Cost Management. As part of our ongoing operational review to identify and reduce"non-value added" costs from our operations, we will specifically look to reduce our production input costs. We will also focus on our distribution systems, looking at strategies to get products to our customers more efficiently and economically. Finally, general and administration costs will be strictly controlled to ensure that we can maximize our resources dedicated to making and selling beer.

Premium Portfolio Focus. Marketing and advertising spending will be targeted at growing our high margin and less price sensitive premium products. We will continue to be disciplined price followers, while ensuring that we maintain our price premiums to the extent

REGIONAL OVERVIEW

possible. Growth opportunities for our premium portfolio in Western Canada exist in both the retail trade and the on-premise trade as consumers continue to migrate from the mainstream brands to premium brands.

Partner Brands. Another ingredient in our continued success in Western Canada will be the growth of our partner brands, including Diageo, Grolsch, Pilsner Urquell, Samuel Adams, Sapporo and Scottish & Newcastle. We will continue to develop the Canadian presence of these import premium brands as they represent unique and valuable parts of our portfolio of products. We aim to be the premium beer supplier of choice for all customers in Western Canada.

Dan Fox

"Innovation and speed to market are critical aspects of our organizational culture. In 2003, we again demonstrated our ability to be 'first-to-market' with the successful introduction of Sleeman Clear-first by several months in the dominant Ontario market. We will continue to innovate and to deliver high quality products to our consumers."
Dan Fox, Managing Director,
Ontario & Atlantic Canada

Eastern Canada Year In Review

Sleeman continued to build on the successes achieved in Eastern Canada in the prior year. We added Premium Light to our portfolio of products available in cans in Ontario. Prior to the summer selling season, the Cream Ale, Honey Brown and Premium Light cans were introduced into the province of Quebec, where increasing can consumption is the most noticeable trend in this marketplace. We achieved 3% core volume growth in the Eastern Canadian segment, a notable achievement in a flat and competitive industry.

During our peak summer production season, a beer tank at our Guelph brewery collapsed due to a structural defect, resulting in the loss of all of the beer in the tank along with the use of two adjacent tanks for an extended period of time. Thankfully, no one was injured. Just as we were implementing our plan to compensate for this loss by adding weekend production shifts in August, the province of Ontario experienced a black-out that exacerbated the effects of this tank collapse. Our Guelph brewery supplies the two largest marketplaces in Canada – Ontario and Quebec, therefore, the lasting effects of the tank collapse resulted in lost sales in these marketplaces.

By rationing our available internal production to supply our higher margin premium brands, the Company managed to largely limit losses to its value brands. To minimize the impact of lost sales, the Company out-sourced a moderate volume of value brand production (40,000 hectolitres) to a small brewer in Ontario, adding a premium to our cost of production.

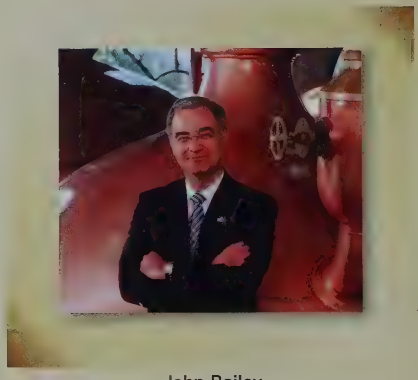
The Company estimates that it lost approximately 20,000 hectolitres of beer sales. Without these lost sales, our core volume growth in Eastern Canada would have been 6%. The hard work, dedication and resourcefulness of our employees allowed us to minimize the financial and operational implications of this incident. The Company expects to recover a significant portion of these costs through its insurance claim related to the tank collapse.

The Company's resourcefulness and innovation was borne out by the fact that we introduced Canada's first low-carb beer, Sleeman Clear, into the Ontario market in August 2003, in the face of the above noted challenges. Later in the year, we introduced this new premium product into Quebec with significant media attention and

REGIONAL OVERVIEW

consumer acceptance. Canadians are increasingly making health conscious decisions about dietary choices. This trend has gained momentum in recent years and we responded to consumers with a product that satisfies their lifestyle choice with a refreshing premium beer offering in this emerging category.

We continued to see double digit growth in the Maritimes and United States regions in 2003. Our volumes in these markets are significantly lower than the Ontario and Quebec regions, however these regions will play an increasing role for our growth in the future. In the United States, our strategy is to nurture our current developmental markets (Minneapolis and Boston) and test new markets adjacent to the successful Ontario and Quebec regions. Preliminary results for these new markets look promising, however, we will continue to be prudent and cautious in the U.S. In the Maritimes, with a trend mirroring those in other Canadian beer markets, it appears that the value and premium beer categories are growing faster than industry rates. Our strategy of focusing on these two growth categories positions us to take advantage of these trends with our Sleeman, Maclays and Old Milwaukee portfolio of brands.



John Bailey

"The Quebec marketplace has proven to be challenging for Sleeman over the past few years. As Managing Director for the Quebec Region, I bring strong industry and marketplace experience to Sleeman. I look forward to working with my team to creatively use the company's strong brands, high quality products, openness to new ideas and timely decision-making to grow our market share and profitability in Quebec."
John S. Bailey, Managing Director, Quebec

During 2003, we began shipping Sapporo bottled products for export to the U.S. Over 115,000 hectolitres of Sapporo beer was produced and shipped during the year. Given the success of this significant production integration, Sapporo sought, and we have agreed to, an extension of our agreement to include worldwide production of its distinctive 650ml "Silver Can". The production of this distinctively shaped can will begin in the Spring of 2004. Sapporo is a world-renowned brand with a reputation for high quality, and is the leading Japanese import brand in the U.S. market. We are proud to be partners with this company and will benefit both financially and operationally from this partnership.

Our portfolio of import brands continues to be an area of opportunity in Eastern Canada. We are working closely with our international partners to develop the Canadian presence of their import premium brands in the growing import beer category. During the year, we signed an agreement with Diageo Canada Inc. to distribute draught and packaged brands, including Guinness, in Quebec and the Maritime provinces. In addition, we started distributing Grolsch products in the province of Quebec in the first quarter of 2003. These distribution agreements permit Sleeman to operate its distribution system more efficiently in Quebec and to improve its premium portfolio in that province.

Year In Preview

The Eastern Canada segment consists of the two largest marketplaces in the country. Going forward, both Ontario and Quebec present many opportunities for increased sales and profitability. In 2004, we will continue to exploit these opportunities by focusing on a few key areas:

Capacity. We are currently expanding capacity in our Guelph brewery so that we will be able to produce 20% more beer at this facility in 2004. Further expansion plans will ultimately take the Guelph brewery to one million hectolitres. In addition, we are currently improving operations and expanding capacity at our Nova Scotia brewery to

REGIONAL OVERVIEW

lower our cost of production and increase the production output. Our goal is to increase the production output of our Halifax brewery by 30% in 2004. Management has spent a considerable amount of time ensuring that our available capacity will continue to meet growing demand in that market. We will also consider acquisition or alternative opportunities that present both strategic and operational benefits in other markets.

Premium Portfolio Focus. We will increase our marketing and advertising spending targeted at growing our key premium brand sales. Together with our partner advertising agencies in Ontario and Quebec, we will create distinctive sales and marketing programs which are focused on specific brands within our premium portfolio. In terms of pricing, we will continue to be intelligent fast price followers, while continuously looking to improve our price positioning versus our competitive set. In the Maritimes, we will focus our sales and advertising spending on our premium products as consumers in that region continue to sample, and adopt, more premium brands.

John Driggers

"Competing in the industry's largest marketplace worldwide has its unique challenges, risks and opportunities. This is a long term growth opportunity for Sleeman. Our prudent approach over the past three years has allowed us to test strategies in specific regions within the U.S. while building key relationships with distributors. At the same time, we have not jeopardized our cash flow and growth potential in our core Canadian market. We plan on continuing with this strategy, which we believe will continue to produce high double and triple digit rates of growth over the next three to five years."
John Driggers, Managing Director, U.S. Exports

Cost Management. We will ensure profitable growth by continuing to effectively manage our production, distribution and administrative costs, notably distribution costs in Ontario and Quebec which will be subject to rigorous reviews this year.

Optimize Sales Force. In Ontario, we will continue to restructure our sales force to allow for more focused and fact-based selling to key retail and licensee locations. Similarly, our sales force structure in Quebec will be reorganized early in 2004 to ensure that we have optimal coverage of the numerous grocery, convenience, and on-premise customers in that province.

Quebec Distribution. In Quebec, our Company-owned distribution system is a key success factor for Sleeman. In addition to reviewing the costs of this system, we will look at ways of improving customer service through training and information technology changes, including hand-held computers for both sales representatives and drivers. We anticipate relocating our main distribution centre by late 2004.

U.S. Development Market.. We will continue to test development markets in the United States.

Partner Brands. We will continue to work closely with our international partners to increase their respective brands' visibility, equity and sales volumes.

Sapporo Silver Can. We will begin production of the 650ml "Silver Can" in the Spring of 2004. We will continue to work closely with Sapporo Breweries to ensure smooth integration of this production.

Innovate. Sleeman is a leader in innovation in the Canadian beer market as demonstrated by the introduction of such Canadian industry leading products as Sleeman Honey Brown, Sleeman Clear, the heritage-shaped Sleeman can and the Old Milwaukee "can in case promotion". We will continue to be a leader in innovation again in 2004.

STRATEGIC ALLIANCES

The Company's portfolio of premium import brands is a key part of our volume and earnings growth strategy. We have chosen partners that stake their reputations on the quality of their beer brands. During the year, we enhanced some of these international partnerships. Specifically:

We expanded our partnership with Scottish & Newcastle of Scotland to represent their premium brands in both Eastern and Western Canada. Previously, we only represented their brands in Western Canada;

We extended our existing contract with Sapporo Breweries of Japan by one year and expanded it to include worldwide production of their distinctive 650ml "Silver Can"; and

We signed new distribution agreements with Diageo Canada Inc. to include British Columbia and Quebec. Sleeman now distributes draught and packaged brands for Diageo, including Guinness, in the provinces of British Columbia, Quebec, and the Maritimes.

The expansion of each of these relationships demonstrates the success of our partnerships with these organizations in the past.

The premium category, including premium imports, is the fastest growing category of the Canadian beer market. Our strategic alliances leave us well positioned to compete in this market with a strong portfolio of both owned and partner premium brands.

Our portfolio of premium partner brands includes:

Boston Beer Company
Samuel Adams Boston Lager

Diageo Canada Inc.
Guinness
Smithwicks
Kilkenny
Harp

Grolsch
Amber Ale
Premium Lager
Navigator of Holland

Maclays
Maclays Traditional Pale Ale

Sapporo Breweries
Sapporo Premium Draft
Sapporo Reserve

Scottish & Newcastle
Newcastle Brown Ale
McEwan's India Pale Ale
McEwan's Scotch Ale
John Smith's Pub Draught
Beamish Genuine Irish Stout
Kronenbourg '1664'
Younger's Tartan Special
Strongbow English Dry Cider

SAB Miller
Pilsner Urquell
Kozel

CORPORATE CULTURE

Corporate Values

Though our business may change from year to year, Sleeman is committed to a set of core values that guides our actions in everything we do in all aspects of day-to-day business. These include:

1. An unwavering commitment to quality and excellence;
2. Honesty, integrity and ethics;
3. Personal development and empowerment;
4. Innovative entrepreneurial abilities, actions and spirits;
5. Treating people with fairness and respect, and as partners in the enterprise;
6. A healthy work/home life balance;
7. Passion and loyalty; and
8. Open communication and teamwork.

Community Involvement

Sleeman recognizes the importance of community and the Company's responsibilities. In the past year, Sleeman has supported, among others, the following community and educational endeavours on an on-going basis;

- The University of Guelph
- The Guelph General Hospital
- The Duke of Edinburgh's Foundation
- The Politics and the Pen
- The Toronto International Film Festival
- The United Way
- Ducks Unlimited Canada

In addition to the quality of our owned brands and the brands we represent, Sleeman's success is driven by the strength of our people. Our reputation as a "destination employer" has helped us recruit top industry talent while experiencing very low employee turnover rates. We have dedicated and talented employees working for this Company. Our entrepreneurial and innovative culture allows our employees to come to work everyday knowing they can make a difference. The launch of Sleeman Clear in 2003 was a great example of how our culture inspires people. We were first in the Canadian market with a low carbohydrate beer as a result of the hard work and dedication of people within every department of the Company.

We have strengthened our management team with internal promotions. This new management team produced exceptional results in 2003. We will continue to recognize and reward employees appropriately as we look to grow our sales and earnings in the future.

A recent Globe and Mail Report on Business survey ranked Sleeman #1 in the beverage industry in Canada for corporate social responsibility. The Company is very proud of this ranking as we take our corporate social responsibility very seriously. We led the industry group in employee relations and our Company was identified as having excellent health benefits and safety management programs. We were also acknowledged on the environmental front for having a good record on limiting emissions and wastewater discharge. In 2004, we plan to complete the installation of a wastewater treatment system at our Guelph brewery which will allow us to meet all of the requirements of the City of Guelph's wastewater bylaws while significantly reducing expected costs.

EXECUTIVE ROUNDTABLE

1. You have often indicated that maximizing shareholder value is a key objective for Sleeman. How does Sleeman plan to deliver value to its shareholders in 2004 and beyond?

(John Sleeman, Chairman & CEO)

As we have done in past years, Sleeman continues to focus on its long term growth. We believe growing the Company's normalized earnings per share by 10% to 15% year after year will maximize long term value for our shareholders. Our philosophy has been to ensure that we pursue profitable growth strategies as we did in 2003. Sleeman continues to reinvest for future growth, as is evidenced by the steps we are taking to make certain our capacity needs are met for the short and medium terms. We have restructured our debt to allow us the financial flexibility needed for pursuing our growth strategies. We continue to focus on developing our premium brand portfolio, positioning us for increased profitability and more shareholder value for the foreseeable future.

2. How will Sleeman address the continued competitiveness of the Ontario market?

(Dan Fox, Managing Director – Ontario and Atlantic Canada)

Sleeman continues to focus on following the paths that have already proven to be successful in competing within the very challenging Ontario market. We continue to be innovators, both in terms of the products we offer, as well as in the marketing strategies we employ. In the past, we have shown the ability to do very well against the competition by using creative marketing initiatives that provide excellent value. Our sales team will use fact-based selling strategies that show our retail and on-premise customers the financial and image benefits of selling our products. Sleeman will also continue to improve its sales and marketing team in Ontario, focusing on hiring competent team players who know the industry and know how to succeed within it. Finally, we will follow our "price follower" strategy to ensure that we optimize our profit margins.

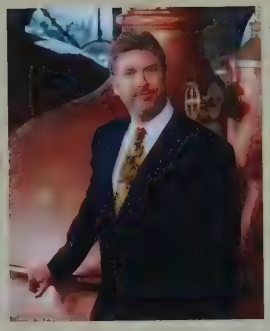
***Dan Fox** became Managing Director, Ontario and Atlantic Canada on January 1, 2003. Prior to this he worked for Sleeman as Director of Marketing, Eastern Operations from 1996 to 1998; Vice President, Quebec from 1998 to 2000; Vice President, Business Development from 2000 to 2002; and Vice President, Domestic Brands and Business Development during 2002. Prior to joining Sleeman, Dan spent 15 years at another national brewer in various capacities, the last of which was National Marketing Manager. Dan played an integral role in the introductions of Sleeman Honey Brown and Steam, and most recently, Sleeman Clear.*

EXECUTIVE ROUNDTABLE

3. How does Sleeman compete in the United States marketplace?

(John Driggers, Managing Director – U.S. Exports)

The United States remains the largest and most competitive beer market in the world. With the potentially significant rewards that come with effective penetration into this market, also come significant risks. As such, Sleeman management has followed a strategy of planning for the long term in growing our presence within the U.S. market. We have steadfastly remained prudent in our approach, ensuring we do not jeopardize our growth or the financial resources available for our core Canadian market at the expense of uncertain U.S. growth prospects. For these reasons, we have continued to focus on the development of specific markets which we hope to use as stable and profitable bases for pursuing further growth. We plan on developing border state markets with close proximity to the Ontario market where there is likely to be more brand familiarity as a result of "spillover advertising". In terms of the limited amount of money that we will commit to the U.S. market, it is important to note that other small brewers in the U.S. have shown that it is possible to compete and grow in this market without spending large amounts of money. Our success in the U.S. market will depend on our ability to grow our customer base with low cost, high impact sales and marketing programs.



***John Driggers** was hired by Sleeman in 1999 at the time of the acquisition of the Stroh license as the Managing Director of the Stroh business in Canada. In 2001, he became the Managing Director, United States Exports, responsible for developing the U.S. business. Prior to joining Sleeman, John spent nine years with Stroh Breweries, most recently as Canadian General Manager. He was the principal liaison between Stroh and Sleeman. John continues to nurture and develop selected U.S. test markets. Development of the U.S. market remains a long term growth strategy for Sleeman and John's role will be critical to its success.*

4. How will you make a difference for Sleeman in the challenging Quebec marketplace?

(John Bailey, Managing Director – Quebec)

The competition in the Quebec marketplace is as fierce now as it has ever been. There has been a proliferation of both domestic and import premium brands, which is not surprising as the premium category continues to gain momentum in Quebec. I believe my industry and management experience combined with a strong and reinvigorated sales and marketing team in Quebec will allow us to reestablish our premium brand growth trends in Quebec. We will focus our marketing efforts on building premium brand awareness and relevance for our Quebec customers. Also, we have begun to reorganize our sales force structure in the province so that we can achieve optimal coverage of the numerous grocery, convenience and on-premise customers. We are continuing

EXECUTIVE ROUNDTABLE

to implement improvements to our distribution system through training and information technology changes. The combination of these initiatives leaves us well positioned to successfully compete in the Quebec marketplace.

***John Bailey** became Managing Director, Quebec on August 11, 2003. John joins Sleeman with broad marketing experience acquired over a 20-year career in consumer goods and services. Since 1998, John was the Vice President of Marketing for the Quebec operations at another national brewer, where he played a key role in turning around its business in that province. The Quebec marketplace continues to be a challenge for all industry participants, however, John's knowledge and experience will help Sleeman compete profitably in the province.*

5. How will Sleeman's Vernon Brewery capacity keep pace with growing sales in the Western marketplace?

(Steve Pelkey, Managing Director – Western Canada)

All four of our Western markets posted growth in 2003. The premium and value categories of the beer industry in the West are continuing to attract an increasing number of consumers. Our opportunities for growth in 2004 and beyond will depend on our ability to meet growing market demand and on our continued ability to sell beer profitably. We have enough capacity to meet our expected sales over the next 12 to 18 months. We have a production plan for 2004 that will allow us to meet our expected sales demand while also allowing us to achieve maximum operating efficiencies. Our current expansion plans for the Vernon brewery will ensure we have sufficient capacity to accommodate growth over the intermediate term. Over the longer term, we will consider acquisitions or alternative opportunities in our region that present both strategic and operational benefits.

***Steve Pelkey** was hired by Sleeman as Marketing Manager in 1997. He was promoted to the position of Director of Marketing, Western Operations in 2000. Steve became Managing Director, Western Canada on January 1, 2003. Prior to joining Sleeman, he was Marketing Manager of Andres Wines Ltd. in Vancouver, British Columbia from 1995 to 1997. Steve has over 13 years experience in the food and beverage industry. He has played an integral role in the success of the Western Canada segment since joining Sleeman in 1997.*

EXECUTIVE ROUNDTABLE

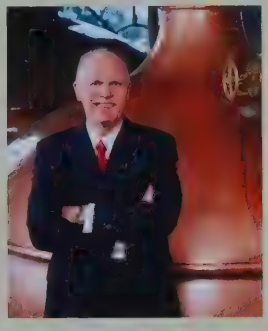
6. During 2003, Sleeman refinanced its debt facilities. What are the benefits the Company will derive from the refinancing?

(Dan Rogozynski, Vice-President Finance and Administration)

The Company will derive three principal benefits from this refinancing. First, the Company's minimum required principal repayments on its long term debt facilities were significantly reduced as a result of this refinancing. With the reduced required repayments, the Company has more flexibility in how it will finance its future growth. Second, the new facility provides the Company with significantly more borrowing capacity to finance its future growth as the maximum amount the Company may borrow has increased to $160 million from approximately $100 million. Of course, we will ensure that our borrowings are made within the context of our long term debt to equity ratio target of approximately one-to-one. Finally, the refinancing allowed the Company to introduce four new lenders to its lending group. As such, the Company has four new world class financial partners who can provide financial backing and expertise for many years to come.

7. What factors are going to ensure Sleeman's growth is profitable in 2004?

(Rick Knudson, President & COO)



The two key pillars that continue to drive Sleeman's growth have not changed. They are the quality of our products and the strength of our people. We have a renewed management team that is focused on producing and selling high quality products profitably. We plan on doing this by directing our growth strategies towards our premium brands, while ensuring that we implement cost management initiatives which will allow us to invest in value-added activities, including creative marketing and advertising of our brands. We are investing in our sales and marketing people and infrastructure to ensure that we can support this plan. In addition, we are expanding our breweries in Guelph, Vernon, and Halifax to support our growth plans while producing high quality beer in a cost effective and environmentally sound manner. We also hope to improve our margins by being disciplined price followers as industry pricing improves. Lastly, we will continue to evaluate acquisition and expansion opportunities based on both their operational and financial benefits.

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following comments provide a review of the activities, results of operations and financial condition of Sleeman Breweries Ltd. for the 12 months ended December 27, 2003 in comparison with the 12 months ended December 28, 2002. These comments should be read in conjunction with the audited consolidated financial statements and accompanying notes. Unless otherwise noted, all amounts included herein are expressed in Canadian dollars.

The following comments were prepared as of March 4, 2004. Additional information relating to the Company, including its Annual Information Form, is available on SEDAR at www.sedar.com.

FORWARD LOOKING STATEMENTS

All statements in this discussion and analysis that do not directly and exclusively relate to historical facts constitute forward-looking statements. These statements represent the Company's intentions, plans, expectations, and beliefs and are subject to risks, uncertainties, and other factors, of which many are beyond the control of the Company. These factors could cause actual results to differ materially from such forward-looking statements. The Company disclaims any intention or obligation to update or revise any forward-looking statements as a result of new information, future events or otherwise.

Description Of Business

The Company markets, sells, produces and distributes bottled, canned and draught premium beer under the Sleeman, Upper Canada, Seigneuriale, Okanagan Spring, Shaftebury, and Maclays brand names (the "premium brands"). In addition, the Company imports, markets, sells, produces and distributes "value beer" brands under the Old Milwaukee, Rainier, Colt 45, Stroh, Pabst, Schlitz, Bull Max, Lone Star and Big Bear brand names (the "value brands"). The Company's products are primarily sold in the four largest beer markets in Canada: Ontario, Quebec, British Columbia and Alberta, though certain products are available in all Canadian provinces. The Upper Canada, Seigneuriale, Shaftebury, Maclays and Okanagan Springs brands are regional premium brands. Upper Canada is sold in Ontario, Seigneuriale is sold in Quebec, the Maclays brand is sold in the Maritime provinces and Okanagan Spring and Shaftebury are sold in British Columbia, Alberta, Saskatchewan and Manitoba.

In Quebec and British Columbia, the Company distributes its products through wholly owned distribution companies. In Ontario, distribution occurs through The Beer Store and the Liquor Control Board of Ontario (LCBO). In the provinces of Alberta, Manitoba and Saskatchewan, the Company relies on outside agents to make local distribution arrangements. In the Maritime Provinces, local liquor boards distribute and retail our products.

The Company represents various world-class international brands such as Grolsch, Pilsner Urquell, Samuel Adams and Scottish & Newcastle (including Bulmers Strongbow English Cider) for the Canadian market. Agency fees are earned by the Company for the marketing and distribution of these brands.

The Company also provides contract production for Japan's Sapporo products sold in the United States.

Review Of Operations 2003/2002

Sales volume is reported on a hectolitre basis-one hectolitre is approximately 12.2 cases of 24 bottles.

Net revenue, costs of goods sold and selling, general and administrative costs for 2002 have been reclassified to conform to the financial statement presentation adopted in 2003.

Net Revenue

Total sales volume of the Company's core and agency brands rose 12% from 1,134,000 hectolitres in fiscal 2002 to 1,273,000 hectolitres in fiscal 2003. The 2002 figure is a pro forma[1] figure which has been adjusted for the addition of the new national Scottish & Newcastle agreement signed in 2003.The sales volume of the Company's owned and produced core brands (which consist of the premium brands and value brands) rose 3% to 1,039,000 hectolitres from 1,013,000 hectolitres the previous year. In addition, during 2003, the Company produced 117,000 hectolitres of

[1] Pro forma is a non-GAAP measure, therefore it does not have any standardized meaning prescribed by Canadian generally accepted accounting principles and may not be similar to measures presented by other companies. Pro forma hectolitre sales are all inclusive figures that include both produced and agency brands. Pro forma hectolitres are calculated by making an adjustment in agency brand hectolitre sales for the comparative period such that the agency brand volumes shown for the comparative period only include the same brands sold in the current period. Management uses this measurement to determine the overall sales trends for the products the Company sells.

Sapporo product that was exported to the United States. Agency brand volumes for 2003 were 118,000 hectolitres, as compared to the 122,000 hectolitres that the Company would have reported in 2002 for these brands had the Company sold all of these same brands in 2002. Total volume growth compares favourably to a marginal industry decline in the year. Furthermore, the Company estimates that its total volume would have been approximately 20,000 hectolitres higher (representing a further 2% increase in total volumes) than the amount reported above if not for the estimated sales lost as a result of the collapse of one of the Company's beer tanks in the third quarter of 2003.

The tank collapse occurred at the Company's Guelph brewery as a result of a structural defect. The Company lost all of the beer in the collapsed tank and the use of 2 adjacent tanks for an extended period of time. The Company planned to compensate for the loss of these tanks by producing on weekends over the August and September period. However, the electrical blackout in Ontario exacerbated the impact of this incident. During the blackout, the Company did not produce for three full days and only produced beer as electricity supplies permitted for another five days.

There were no injuries from the tank incident and the Company expects to recover the vast majority of its incremental costs and lost gross margin from its insurers. The Company has recorded a $2.7 million amount receivable for the direct costs related to this incident, the lost margin on these short shipments and the incremental production costs related to the outsourcing of the production of certain value brands during this period to minimize short shipments. The Company believes $2.7 million to be a conservative estimate and that the actual claim may be in excess of this amount when it is filed.

In Eastern Canada, sales volumes of core brands increased by 3% or 22,000 hectolitres from the prior year. Increases in value brand sales in Ontario, successful marketing initiatives for premium brand sales in Ontario and premium brand sales in Atlantic Canada more than offset lower sales volumes in Quebec. Quebec premium brand volumes and net revenue suffered from the effects of intense competition early in 2003, a trend that continued from the prior year. However, by the end of 2003, Quebec premium volumes began to grow again as the Company focused more effort on its brand and price positioning in this market during the last half of the year.

In Western Canada, sales volumes of core brands increased by 1% compared to the prior year. The decrease in value brand profitability as a result of an Alberta tax change introduced in 2002 caused the Company to continue its shift of focus to premium brand sales in that province. The growth in premium brand sales offset the decrease in value brand sales, both on a hectolitre and total revenue basis.

Net revenue of $185 million for the year was up 18% over net revenue of $157 million in fiscal 2002. The increase related to revenues earned on new Sapporo sales ($14.3 million), the higher net revenues related to the 3% core volume growth, a mix shift to higher priced premium product sales and higher pricing in certain markets.

Looking ahead, the Company expects net revenues to increase substantially in 2004 due to the expansion of the Sapporo production contract to include Sapporo's trademark "Silver Can" and increases in the Company's core volumes and core brand pricing in the year.

Cost Of Goods Sold

Cost of goods sold were $96.7 million for the year, up from $79.0 million in 2002. Sapporo cost of goods sold represented $11.5 million of this increase. The remainder of the increase in cost of goods sold resulted from the 3% increase in core volume sales, outsourcing costs incurred in the year and the higher costs related to the increased proportion of heritage-shaped cans sold in the year.

Gross Margins

Average gross margin per hectolitre[2] was $76 compared to $77 in 2002 as a result of the lower gross margins the Company earned

[2] Per hectolitre results are non-GAAP earnings measures, therefore, they do not have any standardized meaning prescribed by Canadian generally accepted accounting principles and may not be similar to measures presented by other companies. Management evaluates business trends on a per hectolitre basis as this is a measurement commonly used by breweries to benchmark revenue and costs.

on Sapporo products as compared to the Company's core brands. 2003 was the first year the Company produced and sold these Sapporo products. The following chart sets out the Company's gross margin components for the year excluding the effects of the Sapporo business:

	Total	Per HL
Net Revenue	$170,695	$164
Cost of Goods Sold	85,180	82
Gross Margin	85,515	82

Excluding Sapporo related sales, net revenue increased from $155 to $164 per hectolitre while cost of goods sold increased from $78 to $82 per hectolitre. As such, the Company's gross margin on its core products increased in the year to $82 per hectolitre.

Price increases in Quebec and British Columbia, successful premium brand marketing initiatives in Ontario and the effects of the Company's focus on the premium category in British Columbia and Alberta were all contributing factors to the net revenue per hectolitre increase.

Incremental costs due to the outsourcing of certain value brand production to a third party contract brewer and the increase in the proportion of sales of higher cost heritage-shaped cans produced the per hectolitre increase in cost of goods sold.

For 2004, the Company expects total gross margin and average gross margin per hectolitre on its core brands to both increase due to continuing favourable pricing trends in all major markets, higher sales volumes, increased agency brand fee income and concerted efforts to control production and distribution costs.

The expansion of the Sapporo contract to include the worldwide production of the 650 mL "Silver Can" will begin in the spring of 2004. As a result of this contract, the Company expects to produce an additional 75,000 hectolitres of Sapporo product in the first full year of production in 2005. In 2004, the Company hopes to produce 50,000 hectolitres of this new product which will add $1.4 million to the Company's total gross margin in 2004.

Other Operating Items

Selling, general and administrative (SG&A) expenses increased in 2003 by $3.9 million, or 7%. In 2003, SG&A expense has been reduced by $1.8 million to account for the expected insurance claim related to tank incident expenses incurred in the year. 2003 also included $0.4 million related to management change costs while the previous year included a similar charge of $1.1 million. Adjusting for these items, the Company's SG&A expenses increased by $6.4 million (13%) to $56.9 million. This represented a per hectolitre spend level of $49, below the Company's target of $50 per hectolitre for the year. The Company was successful in attaining this goal due to the strict controls on spending implemented in 2003. The Company plans on continuing to scrutinize its SG&A costs throughout 2004 as it focuses on spending its resources on value added activities that promote the growth of its premium brands.

In 2003, the Company settled its litigation claim with the vendor of the Grolsch sales and distribution contract. As part of the settlement agreement, the Company agreed to pay the vendor the sum of $2.15 million in exchange for discharge of the $3.5 million gross obligation payable at the time of settlement. This resulted in a gain to the Company of $0.6 million, net of related expenses and deferred interest. This matter is described more fully in note 3 to the Company's 2003 audited financial statements.

EBITDA[3] rose to $33.4 million in 2003 compared to $29.9 million in 2002 with average EBITDA per hectolitre falling marginally by $1 per hectolitre to $29 from $30 per hectolitre. The Company expects total EBITDA to increase in 2004 due to expected volume increases in both Eastern and Western Canada, due to the higher revenues generated from the production contract with Sapporo and due to increasing gross margins on the sales of its core products.

[3] EBITDA is a non-GAAP earnings measure, therefore, it does not have any standardized meaning prescribed by Canadian generally accepted accounting principles and may not be similar to measures presented by other companies. EBITDA represents earnings before interest, income taxes, depreciation and amortization. Management uses this measurement to evaluate the operating results of each of the Company's segments and the Company as a whole. Further, this measure is important to management since it is used by the Company's lenders to evaluate the ongoing cash generating capability of the Company and thus the amounts those lenders are willing to lend to the Company.

The Company's depreciation and amortization expense increased by $0.9 million (17%) in 2003 due to additional depreciation expense related to capital expenditures incurred in 2003 and amortization of refinancing expenses incurred in that year.

The Company's effective tax rate increased to 42% in 2003. Excluding the effect of the non-recurring, non-cash charge booked in the current year related to the change in substantially enacted tax rates in Ontario late in 2003 of $1.1 million, the Company's effective rate for the year was 37%. The Company's effective tax rate was 33% in 2002.

The following chart sets out the Company's normalized earnings[4] and diluted earnings per share for each of the current year and the prior year:

	2003	2002	Change
Net income reported	$12,253	$12,321	
ADD BACK:			
Depreciation and Amortization reported	6,301	5,402	
Interest Expense reported	6,097	6,017	
Income tax reported	8,750	6,190	
EBITDA reported	$33,401	$29,930	+12%
ADD/(DEDUCT) NON-RECURRING CHARGES/(INCOME):			
Management Change Expenses	400	1,100	
Gain on Sale of Agency Agreement	-	(3,595)	
Gain on Debt Settlement	(591)	-	
Normalized [5] EBITDA	33,210	27,435	+21%
Depreciation and Amortization reported	(6,301)	(5,402)	
Interest Expense reported	(6,097)	(6,017)	
Normalized Pre Tax Income	20,812	16,016	+30%
Normalized Tax Rate	37%	33%	
Normalized Tax Provision	(7,700)	(5,200)	-
Normalized Net Income	$13,112	$10,816	+21%
Number of Diluted Shares	16,219,330	15,967,192	
Normalized Diluted Earnings per Share	$0.81	$0.68	+19%

EARNINGS PER SHARE

Net earnings available to shareholders were $12.3 million or $0.76 per fully diluted share in 2003, compared to $12.3 million or $0.77 per share in 2002. The weighted average number of outstanding common shares for 2003 was 412,000 more than in 2002 as a result of the exercise of stock options during 2003.

The authorized share capital consists of an unlimited number of common shares. At December 27, 2003, there were 16,010,106 shares and options to purchase 1,271,355 shares outstanding. Of the total options outstanding, options to purchase 1,045,369 shares are exercisable as at December 27, 2003. These items are described in more detail in notes 12 and 13 to the 2003 financial statements.

FINANCIAL POSITION

Accounts receivable increased by $8.5 million from the level reported at the end of 2002 principally due to the higher revenues earned on core volume sales, agency fee income and new Sapporo sales in 2003. The 2003 year end balance also includes $2.7 million in respect of an insurance claim related to the tank incident described previously.

The Company's inventories at December 27, 2003 increased by $8.2 million from December 28, 2002 levels due to higher production to keep up with its increasing demand of core brands and Sapporo products and in anticipation of a scheduled shut down of the production facility in Guelph for three weeks in January 2004. This planned shutdown was required as part of the brewing capacity upgrade in the Guelph brewery which, when completed, will increase overall capacity to 1,000,000 hectolitres within the next two years.

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[4] Normalized earnings is a non-GAAP earnings measure, therefore, it does not have any standardized meaning prescribed by Canadian generally accepted accounting principles and may not be similar to measures presented by other companies. Management uses this measurement for comparative purposes as it excludes the impact of non-recurring and unusual items. Management does not consider non-recurring and unusual items to be indicative of sustainable earnings. Normalized earnings is an additional measurement used by management and should not replace net earnings determined in accordance with GAAP as an indicator of the Company's performance.

[5] The Company uses the term "normalized" in this document to adjust GAAP earnings measures for non-recurring and unusual items. Since the term normalized is a non-GAAP term, it does not have a standardized meaning prescribed by Canadian generally accepted accounting principles and may not be similar to terms presented by other companies. The Company normalizes various GAAP earnings measures to provide comparable results from one period to another.

Prepaid expenses at December 27, 2003 increased $3.7 million from the levels reported on December 28, 2002. This increase related entirely to a prepayment made for packaging materials at very attractive prices.

At the end of 2003, property, plant and equipment increased by $4.6 million from the level reported at December 28, 2002 mainly due to the acquisition of production equipment installed in 2003 to package Sapporo products and expand manufacturing capacity.

Liquidity And Capital Resources

Bank indebtedness at December 27, 2003 decreased by $9.9 million as the Company used its strong operating cash flow and the conversion of a portion of its bank indebtedness to long term debt under the new credit facilities to reduce its bank indebtedness balance.

Accounts payable increased $11.6 million from the level at December 28, 2002 largely due to higher production levels in December 2003.

Long term debt levels at December 27, 2003 increased marginally by $1.7 million as a result of the effect of the new debt facilities set up in the year. The new debt facilities are more fully explained in note 10 to the Company's 2003 audited financial statements

The increase of $1.3 million in share capital related to the exercise of employee stock options of the Company during the year.

There was an increase in the Company's net working capital investment in 2003 of $7.5 million compared to an increase of $2.3 million in 2002. This $5.2 million decrease in operating cash flow was offset by a favourable $5.4 million change in non-cash items in income in the year. As a result, there was a net $0.2 million increase in cash flow provided by operations in this year compared to the prior year.

Investing activities in 2003 were $3.8 million less than the preceding year. This change is the result of the 2002 acquisition of the Grolsch sales and distribution rights for $6.3 million, partially offset by higher capital expenditures and $1.5 million in refinancing expenses incurred in 2003.

Financing activities generated an inflow of $5.8 million in 2003 compared with an inflow of $5.5 million in the prior year. The Company received $1 million less from the exercise of employee stock options in 2003. The Company generated a net cash inflow of $4.5 million from long term bank financing activities in 2003, compared to a net cash inflow of $3.2 million from these activities in 2002.

As a result of the above changes in operating, investing and financing activities, there was a net cash inflow for the 2003 year of $9.9 million compared to a net inflow of $5.6 million in 2002. This net cash inflow was used to repay the Company's operating bank loan in both years.

The Company ended the 2003 year with an overdraft bank balance of $0.6 million. The Company's authorized limit under this operating loan facility is currently $20 million. In 2004, the Company plans to use its operating cash flow plus a small portion of its unused operating loan facility to finance its purchases of capital and intangible assets, working capital investments and repay $13.5 million of long term debt.

During 2003, the Company was successful in renegotiating its long term debt. The Company entered into a new credit agreement with six financial institutions, two of which were the Company's incumbent banks. The new credit agreement provides for four separate loan facilities. These facilities are explained more fully in note 10 of the 2003 audited financial statements. These facilities allow the Company to access $160 million of borrowing capacity, of which the Company has utilized $86 million at the end of 2003. The unused facilities will be used to finance the Company's operations for 2004 and to finance acquisitions in the future as they become available.

The Company also utilizes operating leases as a financing tool for warehouses, computer equipment and rolling stock (cars, vans, forklifts, trucks and trailers). Other than the warehouses, these are fast-depreciating assets that become obsolete very quickly. By entering into operating leases, the Company is able to update this type of equipment, and to do so at a lower overall cost than purchasing the assets. During 2003, the Company entered into approximately $3 million of new leases. All leases are evaluated at their inception for appropriate accounting treatment. Each of these

leases has been determined to meet the criteria for operating lease treatment under Canadian generally accepted accounting principles. The total of the Company's future lease commitments can be found in note 16 to the Company's 2003 audited financial statements. In addition to long term debt (described in note 10 of the financial statements) and operating leases (discussed above), the Company has agreements to purchase materials from certain suppliers on an exclusive basis. Other than for the purchase of the Company's distinctive heritage-shaped can ("shaped cans"), these agreements generally do not have minimum or maximum purchase commitments. In terms of the Company's shaped cans, the Company has a five year agreement whereby it must purchase a minimum of 9 million cans per year until March 31, 2007. If the minimum can purchases are not met, the Company is required to pay $28 U.S. for each 1,000 can shortfall. The Company has met its minimum purchase commitments for each of the first two years of this agreement.

A summary of the Company's Contractual Obligations for the next five years is as follows:

	Payments Due by Period					
Contractual Obligation	**2004**	**2005**	**2006**	**2007**	**2008**	**Total**
Long Term Debt	13,374	8,364	11,152	11,152	41,248	85,290
Operating Leases	8,077	6,559	5,572	4,572	2,786	27,566
Purchase Obligations	360	360	360	180	-	1,260
Total Contractual Obligations	21,811	15,283	17,084	15,904	44,034	114,116

Sleeman does not currently pay dividends on its common shares. The Board of Directors of the Company believes that the cash flow of the Company at the current time should be reinvested in high internal rate of return projects which will drive future growth and shareholder value.

Off-Balance Arrangements

The Company does not have any interests in off-balance sheet arrangements such as Special Purpose or Variable Interest Entities.

Risks And Uncertainties

Management believes that the Company has the resources to continue to compete and, in fact, grow in each major Canadian beer market and continue to test market its products in the U.S. market. The Company is currently the largest premium brewer in Canada and thus leads this growing category of the market, which represents approximately 15% of total Canadian beer sales of some $7 billion. The Company is also a significant competitor in the value beer business as a result of the acquisition of the Stroh brands. Value beer sales represent approximately 20% of all beer sales in Canada. The Company's presence in these two growing categories of the beer market in both Eastern and Western Canada leaves it well positioned to compete effectively and profitably.

The Company considers its main competitors to be other participants in the Canadian brewing industry, which include imported beer and specialty and value beers brewed by both small regional brewers and the national brewers. The markets for beer sales in all Canadian provinces are increasingly competitive and the Company believes it will continue to be very competitive in the future as the Company anticipates that volume in the Canadian beer industry will grow moderately over the next few years due to demographic factors. Existing regional breweries and craft brewers are increasing their marketing programs. National brewers are aggressively promoting and pricing their own specialty and value brands as well as premium import brands. The Company must compete effectively against these competitors in its key focus areas of quality and innovation to continue to grow volumes and profitability. In addition, the Company must continue to develop strategic marketing programs to maintain and grow market share.

The scope of the Company's operating and financial systems, the geographic area of its operations, its increased relationships with international partners and customers has grown in a moderately short period of time, resulting in increased responsibilities for both existing and new management personnel. The Company's future operating results will depend on the ability of its officers and other key employees to continue to implement and improve its operating and financial systems, and to successfully manage these significant relationships. The Company is also dependent upon the performance of its key senior management personnel. The Company's success is dependent upon its ability to identify, hire, train, motivate, promote and retain highly qualified management. Competition for such employees is intense, and there are no assurances that the Company will be able to retain current key employees or attract new key employees. If the Company is unable to attract and retain the necessary personnel, this could have a detrimental impact on the Company's business, financial results, and financial position.

The Company continued to sell Sleeman branded products in certain U.S. markets in 2003. The U.S. market is 10 times the size of that of Canada, but is more competitive than the Canadian market. In 2003, the Company expanded the geographic areas of its operations in the U.S. In 2004, management anticipates that the Company will continue to introduce innovative products and expand sales in existing markets, as well as develop new markets. Successful results in the U.S. market would provide the Company with a significant opportunity to increase volumes and profitability in the future. In this market, the Company is subject to risks associated with foreign sales, unexpected changes in legal or regulatory requirements, exchange rate fluctuations and political and economic instability. Although management believes that these risks are being monitored, there is no assurance that any of these factors will not have a material adverse effect on the Company's business, results of operations, and financial position in the future.

The Company leases facilities located in the U.S. to produce a significant portion of its value brand products. The Company is subject to the risks of the lessor of this facility encountering financial or operational difficulties which may render this facility unavailable for the Company's use.

Various permits, licenses and approvals necessary for the operation of the Company are required from various agencies, including the LCBO, the British Columbia Liquor Distribution Board, the SAQ (Societe Des Alcools du Quebec), Canada Customs and Revenue Agency-Excise, and Internal Revenue Service (USA). Management believes that the Company is currently in compliance with all license and permit terms and conditions, and that the Company has the necessary approvals for current operations.

The quarterly operating results of the Company vary considerably due to the seasonality of beer sales. The Company historically realizes higher sales during summer months. Its sales can be affected by weather. Management expects this trend to continue in the future.

Quality controls in the manufacturing process are maintained to prevent product defects or failures. Despite the quality control procedures and testing done by the Company, there is the risk that the Company could be party to a product liability claim by its customers. The Company maintains errors and omissions and product liability insurance to protect itself from such litigation, but any such claim could have an adverse effect on the Company's business. Currently, there are no significant such claims outstanding.

The Company's employees at its production facilities throughout the country are members of either a union or an employee association ("production groups"). Each of these production groups have collective agreements with the Company. When these agreements expire, there is a risk that the respective production group and the Company will not be able to come to an agreement on the terms of a new collective agreement which may lead to a production work stoppage at their location. A work stoppage that lasts for a significant period of time may result in the Company losing a substantial volume of sales and revenue and may materially reduce the Company's earnings for the period of the work stoppage and for a period after the work stoppage is resolved. The Company's agreement with its employees in Guelph ended at the end of December of 2003. The Company and the related employee association are currently in the process of negotiating a new collective agreement. The Company anticipates that the parties will come to a mutually agreeable collective agreement without a work stoppage.

Contingencies

In 2003, the Company settled its litigation claim with the vendor of the Grolsch sales and distribution contract. This matter has been described in more detail under the section "Other Operating Items" and in note 3 to the 2003 audited financial statements. The pre-tax gain recorded in the year from this settlement was $0.6 million.

Sleeman is subject to certain legal claims arising in the normal course of business. Management believes that none of these legal claims will materially affect the results of the Company in the future.

Environment

Sleeman has a program to oversee environmental, crisis management and health and safety matters. Management believes, based on existing information and laws and regulations, that amounts to be expended on these matters will not be material. Management is not aware of any instance of non-compliance with environmental or health and safety laws and regulations that is not being addressed.

Impact Of New Accounting Pronouncements

The Company's accounting policies are discussed in detail in note 2 to the Company's 2003 audited financial statements.

During the fourth quarter of 2003, Sleeman adopted the new accounting pronouncement of the CICA Handbook section 3870 "Stock-based Compensation and Other Stock-based Payments". The Company prospectively adopted the fair value method of accounting for all employee stock-based awards. The adoption of this standard caused a charge of $0.03 million to be recognized as a compensation related expense in the December 27, 2003 financial statements.

During 2003, the Company recognized a tank collapse incident related insurance claim receivable using a probability-based assessment of losses and costs to estimate the Company's claim receivable at December 27, 2003. The Company has recorded a receivable amount of $2.7 million on this date related to the claim. $1.8 million of this amount relates to the incremental operating costs and lost sales resulting from this incident while $0.9 million of this amount relates to the costs of replacing the tank. This is the first time the Company has had a material insurance claim, so this is the first time it adopted this method of accounting for such a claim. Further details are provided in note 4 to the consolidated financial statements. The Company chose this policy over the cash-basis of accounting for this because of the likelihood of the expected recovery from the insurance claim and to provide a proper matching of the expected recovery to the expenses incurred in the period. If the Company had chosen the cash-basis methodology, then no receivable would have been recorded and operating costs would have increased by $1.8 million. Management believes that using the cash-basis method of accounting for this expected recovery would not have resulted in a fair presentation of the results of the Company's operations for the period.

Effective December 28, 2003, the Company will adopt the provisions of the CICA Handbook Accounting Guideline AcG-13 "Hedging Relationships". The guideline establishes the conditions that need to be satisfied to qualify for hedge accounting. Hedge accounting ensures that counterbalancing gains, losses, revenues and expenses on transactions and related derivative instruments are recognized in income in the same period or periods. The policy adopted will not affect the Company's financial reporting since this method has been used historically. The alternative accounting policy would be the "marked-to-market" method. This policy will not be adopted by the Company because the hedge transactions are anticipated to be effective, making the matching of counterbalancing gains, losses, revenues and expenses the more relevant method of accounting for the transactions. The impact of applying the "marked-to-market" method of accounting for hedging transactions in future years is indeterminate at this time.

Sleeman will adopt the CICA Handbook's new sections, 3063 "Impairment of long-lived assets" and 3110 "Asset retirement obligations", in fiscal 2004. The Company does not expect these new standards to have a material impact on the reported results in the future.

Related Party Transactions

During the year, the Company did not have any transactions with related parties.

Significant Fourth Quarter Events

During the fourth quarter of 2003, there were three significant events that impacted the Company:

- The Company recognized a pre-tax gain of $0.6 million due to a settlement agreement with the vendor of the Grolsch sales and distribution contract. This matter has been described in detail above and in the notes to the 2003 audited financial statements.
- The Company recognized a non-recurring, non-cash $1.5 million tax provision due to the repeal of previously enacted future income tax rate reductions in Ontario in the quarter.
- The Company prepaid $2.75 million U.S. to a packaging material vendor in order to secure an attractive discount on significant packaging material purchases in 2004.

Critical Accounting Estimates

The Company amortizes returnable containers using accounting estimates. Returnable containers are recorded at cost net of deposit liabilities (where applicable) and are amortized over their useful lives. In determining useful lives, management uses estimates in determining various factors that could impact the useful life such as return rates, trip assumptions, geographic location, industry indicators, type of container, and number of uses. The Company estimates each of these factors in determining the useful lives using historical trends and internal studies. There is uncertainty in these estimates in that actual experience with these assets may vary from these assumptions. The Company is not aware of any facts that would cause it to believe that the estimates used are materially incorrect.

The Company has material investments in its fixed assets and definite life intangible assets. It depreciates these assets using estimates. Refer to note 2 c) and f) to the 2003 audited financial statements for details of the Company's depreciation and amortization rates according to asset classifications. In general, the Company uses a diminishing-balance method as its depreciation policy. The Company has chosen this depreciation policy as an estimate of the respective asset's useful life. It is based on historical trends as well as industry practice. There are no known commitments, trends or events that would cause management to believe that these estimates are materially incorrect.

In the case of indefinite life intangible assets and goodwill, the Company no longer amortizes these assets as a result of an accounting change in 2001. However, each year the Company assesses these assets for impairment in order to determine whether a write-down is required. The Company undertakes an impairment analysis test in the fourth quarter each year. This involves forecasting cash flows and market multiples used to value the assets. There is uncertainty in these estimates as the related cash flows are projected for future years based on underlying assumptions such as volume growth, inflation factors, and industry trends which may not materialize. Management uses its best efforts to forecast these amounts, but the actual amounts may vary from the estimated numbers. In each of 2002 and 2003, the Company concluded that there has been no impairment of any indefinite life intangible assets or goodwill. Should future cash flows differ from management's estimates, an impairment of one or more these assets and a related write-down may result. There is nothing that the Company is aware of that would cause it to believe that these estimates are materially incorrect.

As noted above, the Company recorded an estimate of $2.7 million as the amount receivable for its insurance claim for the tank collapse in 2003. This insurance claim related entirely to the Eastern segment and is reflected in that segment's reported results for the year. This amount is a significant estimate in that the actual amount of the claim that will be received in the future is not certain at this time. The amount that will be received will depend on interpretations of the insurance policy and the evidence of the losses incurred. Should the eventual claim differ from this amount, the difference could have a significant impact on the Company's earnings and financial position at that time. However, the Company believes it has taken a conservative approach in determining this estimate and is not aware of any reason why this estimate would be materially incorrect.

Probable Asset Or Business Acquisitions Or Disposals

In order to meet the Company's growth plans in the long term, the Company will need to increase its production capacity. In 2003, the Company refinanced its long term debt on favourable terms to give it the opportunity to make potential acquisitions in the Eastern and/or Western markets at the appropriate time and under appropriate terms to increase its capacity. At the present time, the Company cannot determine the probability of it making an acquisition in these markets in the future as the probability is dependent on factors beyond the Company's control such as the willingness of other parties to sell their assets or shares and the price expectations of those parties.

Financial Instruments

The Company enters into contractual agreements involving financial instruments to hedge underlying exposures in foreign exchange, interest rate and commodity markets. The Company has a policy of not using financial instruments for speculative purposes and has procedures in place to monitor and control the use of financial instruments.

A significant portion of the Company's operating expenses, in particular can purchases, bottle purchases, U.S. lease facility payments, and hop purchases, are denominated in U.S. dollars. Similarly, the Company has a contract to sell certain products in U.S. dollars. To hedge these U.S. dollar transactions, the Company periodically enters into foreign exchange forward contracts and foreign exchange collar agreements with large Canadian financial institutions. U.S. dollar sales covered by foreign exchange forward sales or collar contracts are recorded in the Company's accounts as sales at the rate of exchange set out in those derivative contracts. Similarly, U.S. dollar expenses covered by foreign exchange forward purchase or collar contracts are recorded in the Company's accounts as expenses at the rate of exchange set out in those derivative contracts.

The Company uses significant quantities of production materials, notably malt, hops and aluminum cans. The Company uses a combination of fixed price contracts of less than three years and cash settlement swap agreements to hedge these commodity price exposures.

The Company enters into interest rate swaps with various large Canadian financial institutions with varying terms and conditions to hedge its exposure to interest rate changes. The net effect of the

monthly settlements of these interest rate swap agreements is recorded in the Company's interest expense each month.

A full summary of the Company's financial instruments as at December 27, 2003 is included in note 18 to the Company's 2003 audited financial statements. The fair market value of the financial instruments shown in note 18 have been estimated by the Company using discounted cash flow analyses of the difference between the contractual terms in place at the balance sheet date and the market rates for contracts of similar terms and conditions as at the same date. These estimates are subject to change as market rates vary, notably for interest rate and exchange rate changes.

Outlook

Management will continue to focus on increasing sales volumes profitably in 2004. In terms of volume, the Company plans to grow sales volumes of its core brands in the range of 3% to 5% by producing and selling high quality and innovative products. In addition, the Company expects to benefit from increasing sales of Sapporo products in 2004 through the introduction of the Sapporo "Silver Can" production at the Company's Guelph facility.

The Company will remain disciplined in maximizing the selling prices of its products while striving to keep average cost of goods sold increases measured on a per hectolitre basis to no more than 2 to 3%.

Selling and marketing activities will be increased significantly and directed towards increasing the proportion of the Company's premium product sales. This will be done by supporting innovative product launches with creative and distinctive sales and marketing activities. Administration expenses will be strictly controlled to allocate more resources to support sales and marketing activities and the rollout of our national enterprise resource planning (ERP) system in 2004. The Company plans to limit the increase in per hectolitre selling, general and administration (SG&A) expenses to no more than 10% over the normalized rate of $49 per hectolitre recorded in 2003.

The Company anticipates its effective income tax rate for 2004 will be between 35% and 37%.

The Company is confident that it will meet its stated goal of growing earnings per share by 10% to 15% in 2004 over its normalized diluted earnings per share[6] in 2003 of $0.81 as shown above.

In Eastern Canada, the Company expects a continuation of the highly competitive market conditions its premium brands have faced. The Company will continue to develop innovative plans to distinguish its premium brands from its competitors in Ontario and Quebec. The Company expects its value brands to continue to perform well in the Ontario market as our Old Milwaukee brand and its industry leading can-in-case promotion appear to have created a very loyal customer base for these products. The Company expects to generate double digit growth volumes in both the Maritimes and U.S. regions in 2004 on relatively small sales bases in 2003. The Company believes innovation, speed to market and the quality of its products are key advantages it has over its competitors. The Company expects that these advantages will allow it to increase market share in a very competitive environment.

In Western Canada, the Company anticipates continued strong growth in the premium portfolio in all Western provinces. Meanwhile, the Company expects ongoing challenges for its Alberta value beer portfolio as a result of the continued deep discounting in this category by small brewery competitors who have been supported by the Alberta beer taxation change introduced in 2002. The Company expects that these trends will lead to another year in 2004 where proportionately more sales in this segment will be derived from premium brand sales.

The Company has committed to meeting its capacity needs over the next 24 months by expanding its Guelph, Vernon and Halifax breweries. The Company anticipates spending between $15 million and $17 million in capital expenditures in 2004 in support of this objective while completing its can line modifications to produce the new Sapporo "Silver Can" and installing a waste water control system in Guelph. The Company continues to review various alternatives for sourcing its expected long term production needs in both Eastern and Western Canada.

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6 Normalized diluted earnings per share is calculated using normalized earnings. Normalized earnings is a non-GAAP earnings measure, therefore, it does not have any standardized meaning prescribed by Canadian generally accepted accounting principles and may not be similar to measures presented by other companies. Management uses this measurement for comparative purposes as it excludes the impact of non-recurring and unusual items. Management does not consider non-recurring and unusual items to be indicative of sustainable earnings. Normalized earnings is an additional measurement used by management and should not replace net earnings determined in accordance with GAAP as an indicator of the Company's performance.

FIVE YEAR SUMMARY

(in thousands of dollars except EPS & Ratios)

	2003	2002*	2001	2000	1999
Income Statement					
Net Revenue	185,036	157,053	141,615	134,439	96,110
EBITDA	33,401	29,930	28,452	26,463	19,546
EBIT	27,100	24,528	21,365	20,092	14,627
Earnings before Tax	21,003	18,511	14,820	13,319	10,869
Net Income	12,253	12,321	9,765	8,969	6,549
EPS (basic)	0.77	0.79	0.64	0.58	0.42
EPS (diluted)	0.76	0.77	0.63	0.58	0.41
Balance Sheet					
Total Assets	243,948	221,433	197,642	182,179	166,171
Equipment & Leaseholds	74,691	70,120	67,569	58,407	48,596
Long-term Debt	85,290	83,622	80,293	89,987	81,223
Shareholders' Equity	103,800	90,197	73,088	62,554	58,078
Working Capital	17,606	5,094	(1,804)	(1,775)	2,670
Ratios					
Current ratio	1.3	1.1	1.0	1.0	1.1
Long-term Debt to Equity	0.8	0.9	1.1	1.4	1.4
Hectolitres (Proforma)	1,273,000	1,134,000	1,024,000	998,000	539,000
NBV per Share	6.48	5.70	4.78	4.12	3.67

SUMMARY OF QUARTERLY INFORMATION FOR THE LAST EIGHT QUARTERS

	2003				2002*			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Net Revenue	33,313	49,892	53,091	48,740	28,109	43,083	48,044	37,817
S G&A Expenses	8,383	16,792	16,985	13,364	7,678	16,521	15,713	11,747
EBITDA	5,551	6,367	9,530	11,952	5,595	8,925	8,537	6,874
Net Income	1,906	2,049	4,359	3,940	1,992	4,617	3,720	1,993
EPS (Basic)	0.12	0.13	0.27	0.25	0.13	0.30	0.24	0.13
EPS (Diluted)	0.12	0.13	0.27	0.24	0.13	0.29	0.23	0.12

*Note: Certain 2002 figures have been reclassified to conform to the current year's financial statement presentation.

CONSOLIDATED FINANCIALS

Auditors' Report

To the shareholders of
Sleeman Breweries Ltd.

We have audited the consolidated balance sheets of Sleeman Breweries Ltd. (the "Company") as at December 27, 2003 and December 28, 2002 and the consolidated statements of earnings and retained earnings and cash flows for the fiscal years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 27, 2003 and December 28, 2002 and the results of its operations and its cash flows for the fiscal years then ended in accordance with Canadian generally accepted accounting principles.

Chartered Accountants
Kitchener, Ontario

Deloitte & Touche LLP

February 20, 2004

SLEEMAN BREWERIES LTD.
Consolidated Balance Sheets
(in thousands of dollars)

	December 27, 2003	December 28, 2002
ASSETS		
CURRENT		
Accounts receivable-Trade	**$30,322**	$25,454
-Other (Note 4)	**7,556**	3,910
Income taxes recoverable	**-**	190
Inventories (Note 5)	**31,054**	22,843
Prepaid expenses	**5,379**	1,677
	74,311	54,074
NOTE RECEIVABLE (Note 4)	**2,166**	3,072
PROPERTY, PLANT AND EQUIPMENT (Note 6)	**74,691**	70,120
LONG-TERM INVESTMENT AND EXECUTIVE LOANS (Note 7)	**6,337**	7,586
INTANGIBLE ASSETS (Note 8)	**86,443**	86,581
	$243,948	$221,433
LIABILITIES		
CURRENT		
Bank indebtedness (Note 9)	**555**	10,461
Accounts payable and accrued liabilities	**40,492**	28,847
Income taxes payable	**2,284**	-
Current portion of long-term debt (Note 10)	**13,374**	9,672
	56,705	48,980
LONG-TERM DEBT (Note 10)	**71,916**	73,950
FUTURE INCOME TAXES (Note 11)	**11,527**	8,306
	140,148	131,236
SHAREHOLDERS' EQUITY		
SHARE CAPITAL (Note 12)	**45,075**	43,753
CONTRIBUTED SURPLUS	**28**	-
RETAINED EARNINGS	**58,697**	46,444
	103,800	90,197
	$243,948	$221,433

APPROVED BY THE BOARD

Pierre Des Marais II, Director

Ken Hallat, Director

Sleeman Breweries Ltd.

Consolidated Statements of Earnings and Retained Earnings
(in thousands of dollars except per share amounts)

	Fiscal Year Ended	
	December 27, 2003	December 28, 2002
NET REVENUE	**$185,036**	$157,053
COST OF GOODS SOLD	**96,703**	79,059
GROSS MARGIN	**88,333**	77,994
GAIN ON SALE OF AGENCY AGREEMENT	**-**	3,595
GAIN ON SETTLEMENT OF OBLIGATION (NOTE 3)	**591**	-
SELLING, GENERAL AND ADMINISTRATIVE	**55,523**	51,659
EARNINGS BEFORE THE UNDERNOTED	**33,401**	29,930
DEPRECIATION AND AMORTIZATION	**6,301**	5,402
INTEREST EXPENSE-NET	**6,097**	6,017
EARNINGS BEFORE INCOME TAXES	**21,003**	18,511
INCOME TAXES (NOTE 11)	**8,750**	6,190
NET EARNINGS	**12,253**	12,321
RETAINED EARNINGS, BEGINNING OF YEAR	**46,444**	34,123
RETAINED EARNINGS, END OF YEAR	**$58,697**	$46,444
EARNINGS PER SHARE (NOTE 14)		
BASIC	**$ 0.77**	$ 0.79
DILUTED	**$ 0.76**	$ 0.77

SLEEMAN BREWERIES LTD.
Consolidated Statements of Cash Flows
(in thousands of dollars except per share amounts)

	Fiscal Year Ended December 27, 2003	Fiscal Year Ended December 28, 2002
NET INFLOW (OUTFLOW) OF CASH RELATED TO THE FOLLOWING ACTIVITIES:		
OPERATING		
Net earnings	**$12,253**	$12,321
Items not affecting cash		
Depreciation and amortization	**6,301**	5,402
Future income taxes	**3,221**	2,000
Gain on sale of agency agreement	**-**	(3,595)
Gain on settlement of obligation (Note 3)	**(591)**	-
Non cash interest charges in income	**(90)**	(69)
Stock-based compensation expense	**28**	-
Loss (gain)on disposal of equipment	**4**	(388)
	$21,126	$15,671
Changes in non-cash operating working capital items (Note 15)	**(7,533)**	(2,277)
	13,593	13,394
INVESTING		
Business acquisitions	**-**	(52)
Proceeds from sale of agency agreement	**980**	351
Additions to property, plant and equipment	**(8,652)**	(6,986)
Additions to intangible assets	**(2,105)**	(7,975)
Proceeds from executive loans	**249**	504
Proceeds from disposal of equipment	**19**	839
	(9,509)	(13,319)
FINANCING		
Net decrease in bank operating loans	**(9,906)**	(5,602)
Stock options exercised	**1,322**	2,288
Long-term debt - proceeds	**90,000**	11,161
Long-term debt - principal repayments	**(85,500)**	(7,922)
	(4,084)	(75)
NET CASH FLOW AND CASH BALANCE, END OF YEAR	**$ -**	$ -
Supplemental disclosures of cash flows:		
Interest paid	**$6,121**	$6,028
Income taxes paid, net of cash refunds of $885 (2002 -$221)	**$3,332**	$7,158

1. DESCRIPTION OF BUSINESS

The Company develops, produces, imports, markets and distributes beer for sale to provincial liquor distribution organizations and entities engaged in the food and beverage industries within Canada.

2. SIGNIFICANT ACCOUNTING POLICIES

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles and include the following policies:

a) *Basis of consolidation*
The consolidated financial statements include the accounts of Sleeman Breweries Ltd. and all its subsidiary companies. All significant inter-company transactions have been eliminated.

b) *Inventories*
Raw materials, work-in-process and finished goods are valued at the lower of cost and net realizable value. Returnable containers are recorded at cost net of deposit liability and are amortized over their useful lives.

c) *Property, plant and equipment*
Property, plant and equipment are recorded at cost. Depreciation generally is calculated using the diminishing-balance method at the following rates:

Plant	5%
Machinery and equipment	5% to 50%
Office equipment	20%
Leasehold improvements	Straight-line over the lease term, normally one to five years

d) *Long-term investments*
Long-term investments include a minority interest investment recorded at cost, less a provision for any permanent decline in value.

e) *Goodwill and brands*
In July 2001, the Canadian Institute of Chartered Accountants ("CICA") issued Handbook Section 3062, "Goodwill and Other Intangible Assets" ("Section 3062"), which was effective for the Company's fiscal year beginning on December 30, 2001. Section 3062 changed the accounting for goodwill and other indefinite life intangible assets from an amortization method to an impairment-only approach. Accordingly, the amortization of goodwill and the amortization of brands ceased upon December 30, 2001.

The Company performed annual impairment tests during the fourth quarter of 2003 and 2002 and concluded that there was no impairment of the value of goodwill and brands, as the implied fair value of these assets exceeded their carrying amounts as of the test date.

f) *Other intangible assets*

Intangible assets are recorded at cost and are amortized on a straight-line basis over the following periods:

Sales and distribution licenses	5 to 10 years
Deferred charges	2 to 5 years

Deferred charges consist of deferred financing costs and deferred packaging costs. Management assesses the carrying values of intangible assets on a periodic basis for possible impairment. Management has determined that no permanent impairment in the carrying values of intangible assets exists based on the projected future income streams of the related revenues.

g) *Revenue recognition*

Revenue is recognized upon delivery of product to the customer. Agency fees are recognized as revenue according to the terms of the agency contract. In all current contracts, the Company is entitled to its fee on delivery of the contractor's products to the relevant provincial liquor board. Therefore, the agency fees are considered to be earned by the Company at the point of shipment.

Net revenue represents the gross revenues of $292,263 (2002 - $269,369), plus third party agency and distribution fees less i) applicable federal and provincial production, environmental and excise taxes, and less ii) returnable container deposits and distribution service charges levied by the applicable provincial liquor boards and government approved distribution agents.

h) *Income taxes*

The Company uses the liability method of accounting for income taxes. Under this method, future income tax assets and liabilities are determined based on differences between the financial reporting and tax bases of assets and liabilities, and measured using enacted and substantively enacted tax rates and laws that will be in effect when the differences are expected to reverse.

i) *Translation of foreign currencies*

Monetary assets and liabilities of the Company which are denominated in foreign currencies are translated into Canadian dollars at the rate in effect at the balance sheet date. Revenue and expenses are translated at the exchange rate in effect on the date of the transaction. Translation gains or losses are included in earnings.

j) *Earnings per share*

Basic and diluted earnings per share have been computed using the weighted-average number of shares of common shares outstanding during each period. Diluted earnings per share amounts reflect the effect of potentially dilutive securities, including stock options, when dilutive, under the treasury stock method.

k) *Use of estimates*

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the financial statements and the reported amounts of revenues and expenses during the reported periods. Actual results could differ materially from those estimates and assumptions.

l) *Stock-based compensation*

The Company maintains two discretionary employee stock option plans which are described in Note 13. Any

consideration paid by employees on exercise of stock options or purchase of stock is credited to share capital. Effective December 30, 2001, the Company adopted the CICA Handbook Section 3870 "Stock-based Compensation and Other Stock-based Payments" ("Section 3870"). Section 3870 establishes accounting standards for the recognition, measurement, and disclosure of stock-based compensation and other stock-based payments made in exchange for goods and services and applies to transactions, in which an enterprise grants common shares, stock options, or other equity instruments, or incurs liabilities based on the price of common shares or other equity instruments. Section 3870 prescribes a fair value based method of accounting required for certain stock-based transactions, effective January 1, 2002 and applied to awards granted on or after that date. As permitted by Section 3870, the Corporation did not adopt the provisions in respect of the fair value method of accounting for all of its employee stock-based compensation and was not impacted by the requirements to determine the fair value of certain other stock-based transactions. Accordingly, for the period beginning December 30, 2001 and ending December 28, 2002, no compensation expense was recognized when stock or stock options were issued to employees.

In November 2003, the CICA amended Section 3870 to require the expensing of the fair value of all stock-based compensation awards for fiscal years beginning on or after January 1, 2004. During the fourth quarter of 2003, as permitted under the transitional provisions of the amendment to Section 3870, the Company prospectively adopted the fair value method of accounting for all employee stock-based awards effective December 29, 2002. Accordingly, all stock or stock options issued to employees on or after December 29, 2002 are reported as stock-based compensation expense based on the fair value of the awards granted.

m) *Derivative financial instruments*

Derivative financial instruments are utilized by the Company in the management of foreign currency, interest rate, and commodity price exposures. The Company's policy is not to use derivative financial instruments for trading or speculative purposes.

The Company's policy is to designate each interest rate derivative financial instrument as a hedge of a specifically identified interest rate exposure. The Company believes that the derivative financial instruments are effective as hedges, both at inception and over the term of the instrument.

The Company periodically enters into foreign exchange contracts and foreign exchange collar agreements to manage risks associated with fluctuations in foreign currency exchange rates for expenditures payable in U.S. dollars.

Foreign exchange translation gains and losses on foreign currency denominated derivative financial instruments used to hedge foreign currency transactions are deferred until the underlying hedged transaction is settled.

Approximately 20% (40% in 2002) of the Company's long-term debt effectively bears interest at variable rates, after taking into account the effect of interest rate swaps. Consequently, the Company is exposed to interest rate risk associated with these obligations. The Company periodically enters into interest rate swap agreements to manage risks associated with interest rate fluctuations. The interest rate swaps are recorded as an adjustment of interest expense on the hedged debt instrument. The related amount payable to or receivable from counterparties is included as an adjustment to accrued interest.

As the Company determines is appropriate, cash settlement commodity swaps are used to hedge against fluctuations in commodity prices such as aluminum and corrugate paper. By entering into such agreements, the Company will commit to pay a fixed contract price for the term of the contract, which will effectively fix the underlying cost of the commodity. Any gains or losses on the commodity swaps are recognized immediately in earnings. There were no such instruments at December 27, 2003.

Gains and losses on terminations of derivative instruments are recognized immediately in earnings at the time of extinguishment.

n) *Fiscal year end*

The Company has a floating fiscal year end which ends on the last Saturday of each calendar year.

3. GAIN ON SETTLEMENT OF OBLIGATION

During the fiscal year ended December 27, 2003, the Company settled litigation with the vendor of the Grolsch sales and distribution contract. As part of the settlement agreement, the Company agreed to pay the vendor the sum of $2,150 (the "settled amount") before December 31, 2003 in exchange for the complete discharge of the Company's obligation to the vendor which had a face amount of $3,460 at the time of the settlement (the "gross obligation payable"). This amount was previously repayable in annual amounts of $865 on July 1 each year from 2003 to 2006. The settled amount was included in the Company's accounts payable and accrued liabilities at December 27, 2003.

The Company recorded a gain on the settlement of this obligation of $591 as the difference between the gross obligation payable to the vendor and the settled amount, less a provision for settlement related costs of $270 and the net book value of imputed interest of $449 on future payments required before the settlement.

4. ACCOUNTS RECEIVABLE – OTHER AND NOTE RECEIVABLE

Note receivable

During the fiscal year ended December 28, 2002, the Company sold the Canadian sales, marketing and distribution rights for an imported beer brand. The gross sales proceeds are receivable in annual payments on June 30 of each year. The amounts receivable at December 27, 2003 were as follows:

2004	$ 1,176
2005	1,352
2006	1,488
Less: imputed interest	(674)
	3,341
Less: current portion, included in accounts receivable - other	(1,176)
	$2,166

Accounts receivable – other

Included in accounts receivable – other is $2,700 related to an estimated insurance recovery from the collapse of one of the company's beer tanks. The claim is for direct costs related to the incident, the lost margin on short shipments and the incremental production costs related to the outsourcing of some production. Included in selling, general and administration is approximately $1,800 of the estimated insurance recovery for non-capital items.

5. INVENTORIES

	December 27, 2003	December 28, 2002
Finished goods and work-in-progress	**$ 16,546**	$ 12,543
Raw materials	**3,362**	2,467
Returnable containers, net of deposit liabilities	**11,146**	7,833
	$ 31,054	$ 22,843

6. PROPERTY, PLANT AND EQUIPMENT

	December 27, 2003	December 28, 2002
Cost:		
Land	$ 1,828	$ 1,828
Plant	18,838	17,920
Capital projects in process	3,978	2,050
Machinery and equipment	72,777	67,225
Office equipment	3,219	3,207
Leasehold improvements	808	592
	101,448	92,822
Accumulated depreciation:		
Plant	5,518	4,831
Machinery and equipment	17,981	15,057
Office equipment	2,745	2,348
Leasehold improvements	513	466
	26,757	22,702
	$ 74,691	$ 70,120

Depreciation on property, plant and equipment totalled $4,058 (2002 - $3,984).

7. LONG-TERM INVESTMENT AND EXECUTIVE LOANS

	December 27, 2003	December 28, 2002
Minority investment	$ 3,311	$ 3,311
Loans to executives	4,026	4,275
Less: current portion	(1,000)	-
	3,026	4,275
	6,337	7,586

The Company has entered into loan agreements with certain senior executives to enable the executives to purchase shares of the Company on the open market. These loans have principal amounts totalling $4,026, bear interest at rates between 3% and 6% per annum and are repayable in full by October 31, 2005. If the executive ceases to be employed by the Company, the entire loan amount will become due and payable. If the executive sells or otherwise disposes of the shares, the net proceeds from the disposition shall be applied to repay the loan amount. The Company has a first security position over the shares purchased and personal covenants from each of the borrowers. At December 27, 2003, $600 (2002 – $391) of accrued interest was owing to the Company by the executives and the market value of the shares purchased was $5,308 (2002 - $5,756).

8. INTANGIBLE ASSETS

	December 27, 2003	December 28, 2002
Goodwill and brands	$ 75,567	$ 75,567
Sales and distribution licenses, net of accumulated amortization of $2,151 (2002-$936)	7,262	8,445
Deferred charges, net of accumulated amortization of $5,752 (2002-$4,724)	3,614	2,569
	$ 86,443	$ 86,581

Amortization of intangible assets totalled $2,243 (2002 - $1,418).

During 2002, the Company acquired the rights to distribute, market and sell beer produced by a European brewer. The acquisition cost of $8,817 (including transaction costs) was paid as follows:

Cash	$ 3,575
Note payable	3,460
Common shares issued on closing	2,500
Total consideration	9,535
Less: imputed interest	(718)
Total acquisition cost	$ 8,817

9. BANK INDEBTEDNESS

At December 27, 2003, the Company had utilized $555 of an authorized working capital facility with a limit of $20,000 (2002 – the Company had utilized $10,461 of an authorized operating line of credit of $22,000). This facility is provided by the Company's syndicate of lenders as Facility A (see Note 10). This facility is a committed variable rate facility which is revolving on a marginal basis and non-reducing from year to year. This facility is a 364 day facility with a maturity date of April 29, 2004 and is renewable at the option of the lenders for a maximum of 364 days. The facility is payable in full on maturity where it is not extended.

Facility A bears interest at prime and is secured under the same terms as described in Note 10. At December 27, 2003, the prime rate applicable was 4.50% (2002 – 4.50%).

10. LONG-TERM DEBT

	December 27, 2003	December 28, 2002
(i) Facility B provided by the Company's syndicate of lenders. Committed variable rate facility which is fully revolving and non-reducing from April 30, 2003 to April 29, 2004 (the "conversion date"); authorized limit $60,000 (2002-$0); interest payable monthly at prime plus 0.50% (subject to variation based on changes in the Company's ratio of funded debt to adjusted earnings before interest, income taxes, depreciation and amortization [EBITDA]). On the conversion date, the facility may be renewed for a period of 364 days at the option of the Company's lenders as a fully revolving and non-reducing facility. Where not renewed, the facility will revert to a four-year reducing term loan facility with a 7 year amortization period with the principal payments due on the last business day of each calendar year quarter in an amount equal to 3.58% of the principal amount outstanding on the conversion date.	$ 10,000	-
(ii) Facility C provided by the Company's syndicate of lenders. Non-revolving reducing term loan, authorized amount of $37,140 (2002 - $0); maturing April 29, 2008. Interest is payable monthly at prime plus 0.50% (subject to variation based on changes in the Company's ratio of funded debt to adjusted earnings before interest, income taxes, depreciation and amortization [EBITDA]). Quarterly principal payments of $1,430 are payable on the last business day of each calendar year quarter.	37,140	-
(iii) Facility D provided by the Company's syndicate of lenders. Non-revolving reducing term loan, authorized amount of $38,000 (2002 - $0); maturing April 29, 2008. Interest is payable monthly at a rate of 6.87% for the term of the loan. Quarterly principal payments of $1,000 are payable on the last business day of each calendar year quarter.	38,000	-
(iv) Maritime Vendor Take Back Loan-Non-interest bearing loan repayable on April 1, 2004.	150	150
(v) Revolving term loan provided by a Canadian chartered bank; authorized amounts total $0 (2002 - $27,417); maturity date was June 19, 2007 with interest payable monthly. Interest rate of prime plus 0.5%. Principal payments of $4,500 were payable July 31 and September 30 of each year starting in 2004, refinanced during the year.	-	23,002
(vi) Non-revolving reducing term loan provided by a Canadian chartered bank, authorized amount of $0 (2002 - $47,960); maturing December 31, 2005. Interest was payable monthly at prime plus 0.25%. Quarterly principal payments of $1,675 were payable in 2003 and were to increase each year to $3,815 in 2005, refinanced during the year.	-	47,960

	December 27, 2003	December 28, 2002
(vii) Shaftebury Vendor Take Back Loan – The non-interest bearing loan was repayable in quarterly payments of $438 from March 31, 1999 to December 31, 2002. Interest was imputed using a discount rate of 7.35%, repaid during the year.	-	438
(viii) Non-revolving reducing term loan provided by a Canadian chartered bank; authorized amount of $0 (2002 - $7,500); maturity date of November 30, 2004. Interest rate of prime plus 0.5%. Monthly principal payments of $266 (2002 - $266) were to be made during the six months beginning April of each year, refinanced during the year.	-	7,500
(ix) Non-revolving reducing term loan provided by a Canadian chartered bank; authorized amount of $0 (2002 - $1,740); maturity date of November 30, 2004. Interest rate of prime plus 0.5%. Monthly principal payments of $41 (2002 - $41) were to be made during the six months beginning April of each year, refinanced during the year.	-	1,740
(x) Sales and Distribution Contract Vendor Take Back Loan – The non-interest bearing loan was repayable in annual payments of $865 on July 1 of each year from 2003 to 2006. Interest is imputed using a discount rate of 10%, settled during the year (see Note 3).	-	2,832
	85,290	83,622
Less: amount due within one fiscal year	13,374	9,672
	$ 71,916	$ 73,950

Security is provided to the Company's lending syndicate of 6 financial institutions for Facilities A, B, C and D on a pro rata basis. The syndicate's security is comprised of a general assignment of book debts; a security agreement over all inventories; a general security agreement over all present and future personal property; and collateral mortgages on land and buildings in Guelph, Ontario and Vernon, British Columbia.

Interest charges on long-term obligations during the year totalled $6,292 (2002 - $5,457).

The debt facilities are subject to certain financial covenants. The Company complied with all covenants at December 27, 2003.

Principal payments required during the next five fiscal years are as follows:

2004	$ 13,374
2005	8,364
2006	11,152
2007	11,152
2008	41,248
	$ 85,290

11. INCOME TAXES

The components of the provision for income taxes are as follows:

	Fiscal year ended December 27, 2003	December 28, 2002
Current	$ 5,529	$ 4,190
Future	3,221	2,000
	$ 8,750	$ 6,190

The components of future tax assets and liabilities are as follows:

	December 27, 2003	December 28, 2002
Future income tax asset:		
Operating losses	$ 3,100	$ 2,711
Future income tax liabilities:		
Difference between tax and accounting basis of property, plant, equipment and intangible assets	13,961	10,532
Other	666	485
	14,627	11,017
Net future tax liability	$ 11,527	$ 8,306

The provision for income taxes differs from the provision amount calculated at combined statutory federal and provincial tax rates for the following reasons:

	Fiscal year ended December 27, 2003	December 28, 2002
Combined statutory federal and provincial income tax rate	35.7%	37.6%
Provision of income taxes at the statutory rate	$ 7,510	$ 6,960
Manufacturing and processing deduction	(525)	(615)
Large Corporations tax	183	235
Permanent differences between accounting income and income for tax purposes	245	(637)
Effects of substantively enacted tax rate changes	1,100	-
Other adjustments	237	247
	$ 8,750	$ 6,190

At December 27, 2003, the Company had approximately $8,990 (2002 – $7,528) in operating losses carried forward, which are available for deduction against taxable income of future years. The benefit of this item has been fully recorded in these financial statements. The operating losses expire as follows:

2004	36
2005	284
2006	2,700
2007	334
2008	2,605
2009	1,513
2010	1,518
	$ 8,990

12. SHARE CAPITAL

	2003	2002
Common shares	$ 45,075	$ 43,753

The authorized share capital of the Company consists of an unlimited number of common shares. At December 27, 2003, there were 16,010,106 (December 28, 2002 - 15,832,211) shares outstanding. During the year, 177,895 (2002 – 309,911) options were exercised for proceeds of $1,322 (2002 - $2,288).

During 2002, the Company issued 225,428 common shares from treasury with a paid in capital of $2,500 as partial consideration for the purchase of the sales, marketing and distribution rights described in Note 8.

13. STOCK OPTION PLAN

The Company maintains two discretionary employee stock option plans. Under the terms of the plans, the Board of Directors determines stock option allocations to employees. Stock options generally have a term of five to ten years and each grant typically vests one-third per year over the following three years.

A summary of the status of the Company's stock option plans as of December 27, 2003 and December 28, 2002 and changes during the years then ended are as follows:

	2003		2002	
	Units	Weighted Average Exercise Price	Units	Weighted Average Exercise Price
Outstanding, at beginning of year	1,341,195	$ 7.57	1,620,544	$ 7.46
Granted	150,000	9.94	48,862	10.15
Exercised	(177,895)	7.46	(309,911)	7.38
Forfeited	(41,945)	10.05	(18,300)	7.80
Outstanding, at end of year	1,271,355	$ 7.85	1,341,195	$ 7.57

A summary of the options issued and exercisable as at December 27, 2003 is as follows:

Exercise prices	Options outstanding			Options Exercisable	
	Number outstanding	Weighted average remaining term	Weighted average exercise price	Number exercisable	Weighted average exercise price
$5.00	65,000	1.52 years	$5.00	65,000	$5.00
$7.00	318,025	2.68 years	$7.00	318,025	$7.00
$7.75	416,500	4.13 years	$7.75	416,500	$7.75
$7.80	252,968	1.51 years	$7.80	212,890	$7.80
$9.76	35,000	4.70 years	$9.76	–	$9.76
$10.00	115,000	4.96 years	$10.00	–	$10.00
$10.15	38,862	3.21 years	$10.15	12,954	$10.15
$11.35	30,000	2.70 years	$11.35	20,000	$11.35
	1,271,355			1,045,369	

Options granted in 2003

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions used for grants during the period: dividend yield of 0%; expected volatility of 25%; risk-free interest rate of 3.5%; and an expected life of 4 years. The compensation cost that has been charged against income for the two plans for grants in the current year is $28 (2002 – nil).

Options granted in 2002

If the Company had determined compensation cost related to its stock option plan based on the fair value at the grant dates for awards granted during the period beginning December 30, 2001 through to December 28, 2002, the Company's net earnings per share would have been reduced to the pro forma amounts indicated below:

	Year ended December 27, 2003	Year ended, December 28, 2002
Net earnings as reported	$ 12,253	$ 12,321
Net earnings - pro forma	$ 12,221	$ 12,280
Net earnings per share as reported	$ 0.77	$ 0.79
Net earnings per share - pro forma	$ 0.77	$ 0.79
Diluted earnings per share as reported	$ 0.76	$ 0.77
Diluted earnings per share - pro forma	$ 0.75	$ 0.77

The fair value of each option grant was estimated on the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions used for grants during the period: dividend yield of 0%; expected volatility of 27%; risk-free interest rate of 5%; and an expected life of 4 years.

14. EARNINGS PER SHARE

	Fiscal year ended Year ended December 27, 2003	Year ended, December 28, 2002
Numerator for basic and diluted earnings per share:		
Earnings available to common shareholders	$ 12,253	$ 12,321
Denominator for basic earnings per share:		
Weighted average shares outstanding	15,971,050	15,559,295
Denominator for diluted earnings per share:		
Weighted average shares outstanding	15,971,050	15,559,295
Dilutive stock options	248,280	407,897
	16,219,330	15,967,192
Net earnings per share:		
Basic	$ 0.77	$ 0.79
Diluted	$ 0.76	$ 0.77

15. CHANGES IN NON-CASH OPERATING WORKING CAPITAL COMPONENTS

	December 27, 2003	December 28, 2002
Accounts receivable and note receivable	$ (7,858)	$ (5,333)
Inventories	(8,211)	(3,547)
Prepaid expenses	(3,702)	(492)
Accounts payable and accrued liabilities	9,764	9,703
Working capital impact of sale of agency agreement	-	330
Income taxes	2,474	(2,938)
	$ (7,533)	$ 2,277

16. COMMITMENTS AND GUARANTEES

The Company rents premises, trucks, phones and computers under various lease agreements. Minimum payments exclusive of realty taxes and other occupancy charges for the next five fiscal years are as follows:

2004	$ 8,077
2005	6,559
2006	5,572
2007	4,572
2008	2,786
	$ 27,566

In February of 2003, the CICA approved an Accounting Guideline, "Disclosure of Guarantees". The guideline requires financial statement disclosure to be made by a guarantor about its obligations under guarantees. The Guideline is applicable for interim and annual periods beginning on or after January 1, 2003. Under this Guideline, a guarantee is defined as a contract or indemnification agreement, which requires the Company to make payments (cash, financial

instruments, other assets, the Company's own shares or the provision of services) to a third party contingent on future events. These payments are contingent on either (i) changes in an underlying interest rate, security price, commodity price, foreign exchange rate or other variables that are related to an asset, liability or an equity security of the guaranteed party, (ii) the failure of another entity to perform under an obligating agreement or (iii) the failure of another party to pay its indebtedness when due. The disclosures are required even when the likelihood of the guarantor having to make any payment under the Guarantee is remote. The Company did not have any material guarantees at December 27, 2003.

17. SEGMENTED INFORMATION

Sleeman Breweries Ltd. is the largest premium brewery in Canada, producing and marketing several unique brands of beer. The Company operates breweries in Guelph, Ontario, Boucherville, Quebec, Calgary, Alberta, Dartmouth, Nova Scotia, Vernon, British Columbia and LaCrosse, Wisconsin, USA. The Company's reportable segments represent the aggregation of strategic business units that produce and sell beer in distinct geographic markets. They are managed separately because each business operates in different market environments in terms of regulatory regimes, customer preferences and sales and distribution channels.

The Company has two reportable segments: Eastern Canadian operations and Western Canadian operations. The accounting policies of the segments are the same as those described in the summary of significant accounting policies. The Company accounts for inter-segment sales and transfers at the transferring segment's cost. Segment performance is evaluated based on earnings before interest, income taxes, depreciation and amortization ("EBITDA").

The following tables set forth information about segment profit or loss and segment assets:

2003	Eastern Canada	Western Canada	Totals
Revenue from external customers	$ 125,826	$ 59,210	$ 185,036
Inter-segment revenue	7,531	-	7,531
EBITDA	22,355	11,046	33,401
Depreciation and amortization	4,676	1,625	6,301
Segment assets	171,117	72,831	243,948
Expenditures for capital assets	6,342	2,310	8,652

2002	Eastern Canada	Western Canada	Totals
Revenue from external customers	$ 104,081	$ 52,972	$ 157,053
Inter-segment revenue	8,569	13	8,582
EBITDA	19,994	9,936	29,930
Depreciation and amortization	3,948	1,454	5,402
Segment assets	151,590	69,843	221,433
Expenditures for capital assets	5,048	1,938	6,986

Substantially all of the Company's assets are located in Canada and substantially all the Company's revenues are derived from Canadian customers. In 2003, one significant customer accounted for 25% (2002 – 28%) of revenue; another significant customer accounted for 18% (2002 – 18%) of revenue, and another accounted for 15% (2002 – 17%) of revenue.

18. FINANCIAL INSTRUMENTS

Fair value

At December 27, 2003 and December 28, 2002, the estimated fair market values of accounts receivable, accounts payable and bank indebtedness were equal to the book values given the short-term maturities of the items.

Long-term investments include a minority interest investment. Management has reviewed the carrying value and determined that a permanent impairment in the value of the long-term investment does not exist.

The estimated fair value of long-term debt approximates the book value as substantially all the debt bears interest at market rates as at December 27, 2003.

Credit risk

A substantial portion of the accounts receivable is attributable to various liquor distribution agencies in Canada. The credit risk relating to these regulatory agencies is considered to be low. The Company is not exposed to significant credit risk relating to the remaining accounts receivable given the relative size of individual customer amounts owed to the Company.

Foreign exchange risk

At December 27, 2003 and December 28, 2002, the amounts included in accounts receivable and accounts payable due in foreign currencies were not significant. Substantially all the Company's revenues are denominated in Canadian dollars. In order to minimize the Company's foreign exchange exposure for anticipated transactions, the following financial instruments are outstanding:

	Notional Amounts Maturing ('000s USD)					
	2004	2005	2006	2007	2008	Total
Foreign Exchange Contracts – Sell USD	2,350	3,500	3,700	2,900	5,100	17,550
Foreign Exchange Contract – Buy USD	12,000	-	-	-	-	12,000

At December 27, 2003, the fair value on the forward exchange contracts were $1,094 (sell) and ($255) (buy).

Interest rate risk

In order to minimize the Company's interest rate exposure, the following financial instruments are outstanding:

At December 27, 2003, the Company was party to interest rate swaps with two Canadian chartered banks. The details of these contracts are as follows:

Swap Facility	Start Date End Date	Notional Principal Amount	Fixed Rate to be Paid
1	July 10/03 April 30/08	$19,839	5.86%
2	July 10/03 April 30/08	$19,839	5.86%

	Notional Amounts Maturing ('000s USD)					
Swap Facility	2004	2005	2006	2007	2008	Total
1	5,014	1,825	3,000	2,500	7,500	19,839
2	5,014	1,825	3,000	2,500	7,500	19,839

Cash settlements on the above fixed rate swaps occur monthly and are calculated based on rolling 30-day Bankers' Acceptance rates. At December 27, 2003, the fair value of the interest rate swaps was ($2,008).

At December 28, 2002, the Company was party to two interest rate swaps with a Canadian bank. The details of these contracts are as follows:

Swap Facility	Start Date/ End Date	Notional Principal Amount	Fixed Rate To Be Paid	Details of Notional Principal Reductions
1	July 4/00 June 1/05	$5,000	6.98%	None for duration of contract
2	May 22/01 Dec 21/05	$11,000	5.94%	None for duration of contract

Cash settlements on the above fixed rate swaps occur monthly and are calculated based on rolling 30-day Bankers' Acceptance rates. At December 28, 2002, the fair value of the interest rate swaps was ($1,212).

Commodity price risk

In 2002, the Company was party to a cash settlement commodity swap for aluminum with a large Canadian bank. The Company entered into this transaction to fix the underlying raw material cost of its aluminum can purchases. The contract was effective from February 1, 2001 and expires December 31, 2003. Each month during the first 11 months of the contract, the Company was obligated to pay US $1,635 per tonne and will receive the market price per tonne based on varying notional quantities (246 tonnes in total). For the second and third years of the contract, the Company was obligated to pay $1,592 per tonne for 532 tonnes and US $1,564 per tonne for 560 tonnes, respectively. The agreement provided for a right of off-set with the party owing the higher amount for any given month required to cash settle the difference. On December 28, 2002, the fair value of the commodity swap was ($131).

19. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform to the current year's financial statement presentation.

OFFICERS & DIRECTORS

CORPORATE OFFICERS

JOHN SLEEMAN - *Chairman & Chief Executive Officer*

RICK KNUDSON - *President & Chief Operating Officer*

DAN ROGOZYNSKI - *Secretary & Vice President, Finance & Administration*

DAN FOX - *Managing Director, Ontario & Atlantic Canada*

STEVE PELKEY - *Managing Director, Western Canada*

JOHN BAILEY - *Managing Director, Quebec*

BOARD OF DIRECTORS

JOHN SLEEMAN - *Chairman & CEO, Sleeman Breweries Ltd.*
The great-great grandson of the original Sleeman brew-master, John revived the family business by reincorporating The Sleeman Brewing & Malting Co. Ltd. in 1985.

JOHN CALDWELL - *Director and Interim President and CEO, SMTC Corporation*
Before joining SMTC Corporation in October 2003, John held chief executive positions and/or directorships with Mosaic Group Inc., Geac Computer Corporation and CAE Inc. Earlier in his career he was a former senior officer of Carling O'Keefe Breweries of Canada Limited. John currently sits on the boards of several publicly traded companies.

ROBB CHASE - *President and CEO, Famous Players (Division of Viacom Canada Inc.)*
Robb is also currently President and a director of the Motion Picture Theatre Association of Canada and a director and member of the Executive Committee of the Canadian Film Centre. Prior to joining Famous Players in 2002, Robb was Senior Vice President of International Franchising for Tricon Global Restaurants. He is a director of several other corporations and trade associations including St. Joseph's Hospital Foundation and The Toronto International Film Festival Group.

PIERRE DES MARAIS II - *President, Gestion PDM Inc.* ✤★✦
A past Chairman, President and CEO of Carling O'Keefe Limited, Pierre has many years of outstanding business experience. He currently sits on the Board of Directors of a number of major corporations.

KEN HALLAT - *Chairman & CEO, Novas Capital Corporation* ✤★
Ken is Chairman & CEO of a private venture capital company, Novas Capital Corporation. In addition, he is Chairman of the M-Chem Group of Companies, which manufactures and markets industrial cleaners and ancillary products for the North American market.

ED PREVOST - *President, Prevost & Associates Inc.* ✦
Ed currently provides corporate services to various public and private companies. He is the Canadian associate of Einhorn Associates Inc. (a U.S. based mergers and acquisitions company), and the President of Prevost & Associates Inc. (a strategic planning and family succession company), since 1998. Earlier, Ed was the President and Chief Executive Officer of La Brasserie O'Keefe Limitèe and the senior Vice-President of Carling O'Keefe Breweries Ltd.

RICHARD SCOTT - *Partner, Fraser Milner Casgrain LLP, Barristers and Solicitors* ✦
During his 16 years with a leading law firm, Richard has practiced extensively in the areas of corporate and commercial law, mergers and acquisitions and securities law.

✤ Member of the Audit Committee
✦ Member of the Corporate Governance Committee
★ Member of the Compensation Committee

CORPORATE GOVERNANCE

Board Composition and Responsibilities

The Board of Directors currently consists of seven Directors, a majority of which qualify as "unrelated" directors according to Toronto Stock Exchange Guidelines. The two "related" Board members are John Sleeman, by virtue of his employment by the Corporation and Richard Scott, a partner of Fraser Milner Casgrain LLP, the Corporation's legal counsel. The Board believes that the majority of independent, "unrelated" directors ensures effective decision making and provides objective advice and counsel to management.

The Board supervises the management of the business and affairs of the Corporation. In fulfilling its mandate, the Board is responsible for strategic planning, identification of principal risks and management of these risks, succession planning and monitoring of senior management, communications policy and integrity of the Corporation's internal controls and management information systems.

Board Committees

The Board of Directors has three committees: the Audit Committee, the Corporate Governance Committee and the Compensation Committee. Each Committee has a mandate outlining its responsibilities and obligations. In accordance with TSX Guidelines, the Audit Committee and the Compensation Committee are composed exclusively of "unrelated" directors.

The Audit Committee is responsible for the identification and management of risks, compliance with legal and regulatory requirements, the integrity of internal financial reporting and auditing according to generally accepted accounting principles, the accuracy and completeness of all legal disclosure documents, and the integrity of the external audit.

The Compensation Committee is responsible for setting and reviewing the compensation paid to the Corporation's executive officers and directors and for selecting and administering the Corporation's short and long-term incentive plans for such executive officers.

The Corporate Governance Committee is responsible for examining corporate governance practices observed within the Corporation, including the effectiveness, composition and mandates of the Board and its Committees, as well as contributions by individual directors, the Board's relationship to management and succession planning for executive officers.

For a complete description of the Corporation's system of corporate governance with specific reference to the TSX guidelines, please consult our annual Management Information Circular, which is available on SEDAR at www.sedar.com.

CORPORATE & INVESTOR INFORMATION

Corporate Office

Sleeman Breweries Ltd.
551 Clair Road West, Guelph, Ontario, N1L 1E9
Tel: 1-800-BOTTLES Fax: 519-822-0430

Independent Auditor

Deloitte & Touche LLP, Kitchener

General Counsel

Fraser Milner Casgrain LLP, Toronto

Creditors

Co-Lead Lenders:
Bank of Montreal (Syndication and Documentation Agent)
The Bank of Nova Scotia (Administrative Agent)

Other Syndicate Lenders:
Canada Life Assurance Company
Canadian Imperial Bank of Commerce
Rabobank Nederland, Canadian Branch
Sun Life Assurance Company of Canada

Stock Trading Symbol

Toronto Stock Exchange - ALE

Investor Relations Contact

Dan Rogozynski,
Vice President, Finance & Administration
Sleeman Breweries Ltd.
Tel: 519-826-5494 Fax: 519-822-2850
Email: sleemanir@sleeman.ca, IR Website: www.ale-sleeman.com

Transfer Agent & Registrar

Computershare Trust Company
100 University Avenue
8th Floor, Toronto, Ontario, M5J 2Y1
Tel: 416-981-9500

Annual Meeting

The Annual Meeting of Shareholders will be held at:
The Ontario Club
30 Wellington Street West, Commerce Court South, 5th Floor, Toronto, Ontario
On Wednesday, May 19, 2004 at 4:00 p.m. (ET)

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